A Deal with the Devil: The Political Economy of Lebanon, 1943-75

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Abstract

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This dissertation is a contribution to the reframing of the history of postcolonial Lebanon, and in particular the era between independence from France and the outbreak of the civil war of 1975-90. The dissertation's central argument is that rather than seeing postcolonial Lebanese history as a product of the contentious interaction between sectarian social groups, as is common in much of the literature on Lebanon, it is more useful to see that history as a product of the struggle to impose and maintain a liberal, laissez-faire economic model by the dominant faction of the postcolonial ruling elite, the commercial-financial bourgeoisie. This economic model entailed, in essence, appending the Lebanese economy to those of other regional powers, particularly the oil states of the Gulf, in order to continue the country's colonial-era role as an entrepôt for the broader Middle East. As a result of its attachment to the economies of regional states, and its concentration in finance, trade, and the service sector, the Lebanese model was both highly unstable and grossly unequal. As a consequence, the Lebanese ruling elite struggled to impose and maintain this model, and they did so only by crafting a highly rigid political system that denied space to even the more moderate reformist forces. These features of the Lebanese system, its instability, inequity, and its rigidity, played a determining role in shaping Lebanon's postcolonial history.

The dissertation uses archival sources from Western diplomatic archives, the archives of the World Bank Group, and the private papers of the head of Lebanese General Security, along with published sources, to describe how this laissez-faire model came into being, to explore its key features, as well as efforts to oppose it. The dissertation provides an analysis of the ways in which the model's inequity and instability impacted Lebanese society, through a discussion of the Litani River hydroelectric project and the Intra Bank crisis of 1966 respectively, and uses an account of the fate of the Lebanese Communist Party (LCP), as well as some of the major struggles within the Lebanese labor movement, to expose elite efforts to maintain the status quo and to enforce a high degree of political rigidity. Ultimately, the dissertation is an attempt to argue that Lebanese exceptionalism is rooted, not in the sectarian cleavages within Lebanese society, but rather in the laissez-faire economic model which set postcolonial Lebanon's experience apart from that of its neighbors elsewhere in the Arab world.

Contents

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Introduction

Thesis

This dissertation is an attempt to intervene in the debate about the nature of the Lebanese polity in the years between independence from France in 1943 and the outbreak of the civil war of 1975-1990. This debate essentially hinges on the question of what lay at the root of 'Lebanese exceptionalism', the set of attributes that separated the Lebanese postcolonial experience from that of its neighbors in the Arab Middle East. In comparison with countries such as Egypt, Syria, Iraq and Jordan, for example, Lebanon was distinct in a number of striking respects. Firstly, Lebanon remained a parliamentary republic throughout the period in question, and consistently practiced, in form at least, a type of democratic, electoral politics that was distinct from the experience of any of its neighbors.[1] Secondly, Lebanon eschewed the international consensus on development strategy for postcolonial states, enshrined in the new Bretton Woods institutions, that called for a central role for the state in managing and directing the national economy towards meeting a series of broad social and economic development goals.[2] In place of such *dirigiste* approaches, the Lebanese adopted a very different strategy, one which, in a sense, preempted the 'new' orthodoxy of the Washington Consensus which emerged in the 1970s, just as the Lebanese order was itself violently collapsing.[3] This approach called for laissez-faire, market-driven policies that limited the role of the state to that of protector and extender of market relations, whilst essentially leaving broader social development questions to the private sector and NGOs.[4] Lebanon's neighbors tended to adopt policies to

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[1] Syria did see brief periods of democratic, parliamentary rule in the years after independence, but these were violently interrupted by extended periods of military rule that ultimately culminated in the rise to power of the Baa'th Party regime in 1963. Egypt's so-called 'liberal period' which lasted until the July Revolution of 1952, saw periodic parliamentary elections, but largely because Egypt essentially remained a British protectorate during this period, they were emptied of any real democratic content. After the rise to power of the Free Officers, Egypt was a military dictatorship.

[2] There is an extensive literature on the politics of development in the post-war moment. See for example, Philip McMichael, *Development and Social Change: A Global Perspective* (Thousand Oaks, Calif.: Pine Forge Press, 2000); Robert Everett Wood, *From Marshall Plan to Debt Crisis: Foreign Aid and Development Choices in the World Economy* (Berkeley: University of California Press, 1986); Albert Hirschman, "The Rise and Decline of Development Economics," in *Essays in Trespassing: Economics to Politics and Beyond* (Cambridge: Cambridge University Press, 1981); Edward Shils, "Political Development in the New States," *Comparative Studies in Society and History* 2, no. 3 (April 1, 1960): 265–92; W. W Rostow, *The Stages of Economic Growth, a Non-Communist Manifesto.* (Cambridge: Cambridge University Press, 1960).

[3] On the emergence of the Washington Consensus see, for example, David Harvey, *A Brief History of Neoliberalism* (New York: Oxford University Press, 2005); Peter Gowan, *The Global Gamble: Washington's Faustian Bid for World Dominance* (London; New York: Verso, 1999); M Watts, "Development II: The Privatization of Everything?," *Progress in Human Geography.* 18, no. 3 (1994): 371; Lance Taylor, "The Revival of the Liberal Creed: The IMF and the World Bank in a Globalized Economy," *World Development* 25, no. 2 (1997): 145–52; Charles Gore, "The Rise and Fall of the Washington Consensus as a Paradigm for Developing Countries," *World Development* 28, no. 5 (2000).

[4] This is broadly in line with the role assigned to the state under neoliberalism. There is, however, no suggestion here that the term 'neoliberal' can be straightforwardly applied to the Lebanese case, as the neoliberal paradigm was very much a product of, and a response to, a specific historical moment, the protracted global crisis of the 1970s. See Harvey, *A Brief History of Neoliberalism*.

protect and develop domestic agriculture and industry, while investing in major infrastructure projects to provide cheap electricity and greatly extend irrigation, as well as building school, hospitals, rural clinics and, to a more limited extent, public housing.[5]

In contrast, the Lebanese quickly dismantled the protective measures adopted during the Second World War, such as currency, capital and trade controls, and kept taxes and public spending to a minimum. To the extent that a coherent national development policy was formulated by any of the postcolonial Lebanese governments, it was limited in scope and specific in its aim; to promote an externally oriented, service economy. The productive sectors of the national economy were largely neglected, while trade, business services (especially finance) and tourism became the bedrock of the postcolonial economic order, collectively contributing more than twice as much to net national product (NNP) as agriculture and industry combined. Lebanon became the Middle East region's primary importer, and main banking center, appending its own growth, and its fortunes, to that of its neighbors. The spiritual architect of Lebanese exceptionalism, Michel Chiha, argued that such a distinct experience was necessary because the Lebanese were a distinct people, not truly Arab or Semitic, but 'Mediterranean', with a special national character, a product of the precarious historical and geographical context in which Lebanon was situated.[6] This national character was mercantile, entrepreneurial, and 'liberal' in a classical sense, requiring policies that promoted the kind of freedoms that would permit trade and financial activities, the national specialties of the Lebanese, to flourish.

The majority of attempts to explain Lebanese exceptionalism have typically looked to the country's complex mix of sectarian and ethnic groups as the primary source of this phenomenon.[7] According to this line of argument, modern Lebanese history has been shaped primarily by the conflicts, negotiations and compromises between different sectarian groups, epitomized in the 'National Pact', the unwritten agreement between Lebanon's first president, Beshara al-Khoury, a Maronite Christian, and Riad al-Solh, a Sunni Muslim and the country's first prime minister. The National Pact enshrined sectarianism, also termed 'confessionalism', as the guiding political principle in Lebanese politics, dividing up political posts and political power according to the perceived demographic weight of each of the various groups. Preserving the delicate balance between

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[5] See for example, Roger Owen and Şevket Pamuk, *A History of Middle East Economies in the Twentieth Century* (Cambridge, Mass: Harvard University Press, 1998); Rodney Wilson, *Economic Development in the Middle East*, 2nd ed (Abingdon, Oxon ; New York: Routledge, 2013); Steven Heydemann, ed., *War, Institutions and Social Change in the Middle East* (Berkeley, Calif.; London: University of California Press, 2000); Clement M Henry and Robert Springborg, *Globalization and the Politics of Development in the Middle East*, 2nd ed. (Cambridge: Cambridge University Press, 2011).
[6] Michel Chiha was a prominent Lebanese intellectual, born into a family of bankers and related by blood or marriage to many of Lebanon's most prominent political and business families. See Chapter One, and 5/12/15 4:17 PM
[7] There are sixteen officially recognized sectarian identities in Lebanon (to one of which all Lebanese must, by law, be assigned from birth), though their demographic weight within the population as a whole is a subject of ongoing contestation as no official census has been taken since 1932. It is widely accepted, however, that the various Christian sects are now a minority of the population, and that Shi'ite Muslims are probably the largest single group.

the sects, none of which were numerically powerful enough to dominate the country alone, required a parliamentary system in which all interests could be represented and conflicts settled peaceably, as well as a minimalist state that would refrain from any measures that could upset or alter the sectarian balance. The struggle to maintain a stable balance between the sects was, according to this argument, severely tested by several factors, in particular: internal demographic changes that saw the Muslim population grow more rapidly than the Christian; regional political struggles that frequently impacted Lebanon (particularly the Palestinian struggle for self-determination); and the repeated interference of outside powers, who sought to manipulate Lebanese politics for their own ends. Ultimately, the Lebanese system proved unable to withstand these intense pressures, leading to the breakdown of the postcolonial order and the onset of sectarian violence in 1975. What followed was an extended, bloody sectarian conflict lasting fifteen years that drew in many regional and international powers, and resulted in the deaths of tens of thousands of people and the physical destruction of much of the country.[8]

This dissertation essentially argues that such an explanation is fundamentally unsatisfying and does not capture the deeper dynamics that shaped Lebanese society after independence. Instead, I propose an explanatory framework which foregrounds political economy, an analysis of the choices and interests of the Lebanese ruling class, a heterogeneous group of wealthy families from across the sectarian spectrum who dominated the political and economic life of the country, and the response to the actions of this class by other sectors of Lebanese society. Rather than being the natural outcome of a diverse, cosmopolitan society, laissez-faire economic policies flowed, logically, from the interests of the dominant faction within the Lebanese elite, the commercial and financial bourgeoisie, whose wealth and power stemmed from their monopolistic grip on trade activity, finance and business services. The rapid dismantling of wartime economic and financial controls in the late 1940s, questioned and actively opposed by a minority of wealthy Lebanese with industrial interests, as well as by the labor movement and leftwing political forces, was the result of policy decisions by the commercial-financial bourgeoisie who dominated the executive and legislative branches of the new postcolonial state.

This dissertation argues that once the major elements of this economic order were in place, elements which included a free trade policy, an absence of financial controls, low taxes, and minimal public spending, it was the struggle to sustain and perpetuate that order that primarily shaped the subsequent history of Lebanon in a number of specific ways. Firstly, the economic order itself was highly imbalanced and unstable, because of its heavy reliance on trade and services and its strong external orientation. Whilst the productive

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[8] Examples of this kind of approach include, Kamal S Salibi, *Cross Roads to Civil War : Lebanon, 1958-1976* (Delmar, N.Y.: Caravan Books, 1976); Farid El-Khazen, *The Breakdown of the State in Lebanon, 1967-1976* (I.B. Tauris, 2000); Samir Khalaf, *Lebanon's Predicament* (New York: Columbia University Press, 1987); Wade R. Goria, *Sovereignty and Leadership in Lebanon, 1943-1976* (Ithaca Press, 1985).

sectors of the economy (primarily agriculture and industry) continued to account for the majority of employment until the late 1960s, they contributed relatively little to the economy, while exports remained at low levels for most of the period between World War Two and the civil war. The economy thus relied heavily on trade income and services to foreigners, including banking and financial services, as well as other business services such as insurance and transportation, and tourism. The chronic deficit in the trade in products and services was balanced by large inflows of short-term capital, primarily funds escaping restrictive policies in other Middle Eastern states, petrodollars from regional oil-exporters (especially the Gulf states), and other funds of various kinds seeking a safe and anonymous home in Beirut's banking haven, including profits gleaned from the burgeoning international drug trade, of which Lebanon was an integral part.[9] This situation left Lebanon extremely vulnerable to external shocks, such as regional conflicts, economic downturns, the imposition of trade controls or other similar measures by trade partners, as well as broader changes in the global economy that redirected financial flows away from regional banking centers like Beirut. For these reasons the Lebanese economic order was subject to periodic crises, often severe in nature, which threatened the stability of the whole state.

Secondly, the laissez-faire order was highly unequal, and consistently channeled wealth to the social elite. Even though the Lebanese economy enjoyed high levels of growth, its banks and financial institutions dealt with increasingly vast sums, and its major port handled enormous quantities of goods, the wealth that was generated by such activities disproportionately accrued to the rich. While per capita income appeared relatively high by regional standards, official aggregated figures disguised the extreme divergence in the fortunes of different sectors of society. When the results of an extensive study of Lebanese society conducted by a French research team in the early 1960s were applied to household incomes, the results suggested an extremely high divergence in incomes. Whilst the top 15% of families earned an average of LL10,000 per month (roughly $3,200), a middle tier comprising 40% of families earned around LL1,500 per month, and the bottom 45% of families earned only around LL350.[10] Such extreme levels of inequality were also a significant source of instability throughout the post-independence period, and, as I shall demonstrate, efforts to challenge the economic and political status quo in order to achieve a more balanced economy, and a more equitable distribution of national wealth, also helped to shape the history of the postcolonial period.

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[9] Lebanon was a major international center for the processing of opium into heroin, as well as the production of hashish, though Lebanon's role in the international drug trade has received very little scholarly attention, and the relationship between drug production and trafficking, as well as with the country's political economy as a whole, remains understudied. See Jonathan Marshall, *The Lebanese Connection: Corruption, Civil War, and the International Drug Traffic*, Stanford Studies in Middle Eastern and Islamic Societies and Cultures (Stanford, California: Stanford University Press, 2012); Hassane Makhlouf, *Culture et trafic de drogue au Liban* (Paris: Editions de l'Harmattan, 1994); Brian Caswallon Evans, "Evolution of a Drug Economy: The Case of Lebanon" (MA Thesis, University of Texas, Austin, 1991).
[10] Salim Nasr, "Backdrop to Civil War: The Crisis of Lebanese Capitalism," *MERIP Reports*, no. 73 (December 1978): 12.

Finally, the strategy pursued by the ruling elite to maintain the status quo and their hegemonic position, and to repel any threat of serious reform, was also a key determinative factor in the history of the period. Ultimately, as I hope to demonstrate, this strategy consisted of rigidly curtailing the space available for legitimate political participation by marginalizing and excluding reformist forces from mainstream political institutions such as the national parliament, the Chamber of Deputies. In the formative years of the postcolonial republic the Lebanese ruling class used the coercive apparatus of the state, as well as a strategy of cooptation, to contain some of the primary bases for reformist politics in the labor movement, and in the largest and most potent leftwing formation at that time, the Lebanese Communist Party (LCP). Alongside such efforts was an emerging set of conventions around electoral politics, which effectively 'sectarianized' the pool of legislative candidates at each election, and limited its scope to those with wealth and influence. Candidates who campaigned from a non-sectarian standpoint, chiefly leftwing and nationalist groups, and who lacked ties of wealth, blood and/or patronage to the dominant members of the ruling class, found it almost impossible to make any headway in the legislative elections. To further exclude reformist elements from mainstream politics, extremely lax regulatory standards ensured that vote tampering and other forms of interference with the electoral process were both endemic and rarely investigated. This was the experience of the LCP in the late-1940s, when state repression, the realities of the electoral process and outright electoral fraud kept the party outside of parliament, despite a high degree of popular support, especially in major urban centers.[11] This strategy of containing challenges to the status quo by denying them legitimate space to operate resulted in a political order which was highly rigid and almost completely unresponsive to demands for change, even of the mildest variety.

The chapters that comprise this dissertation attempt, in different ways, to explore and elucidate these three different aspects of the postcolonial political economy of Lebanon; its instability, its profound inequality, and its political rigidity. The first chapter provides a deeper overview of the structure of the postcolonial economy and its most important sectors, as well as an analysis of some of the key members of the Lebanese ruling class, their sources of wealth and the manner by which they were able to shape and direct state policy in the aftermath of independence. Chapter Two examines the impact of the postcolonial economic order on national development, using the Litani River hydroelectric project, the largest development project attempted by the Lebanese government, as a case study. This chapter explores how the dominant, laissez-faire paradigm placed restrictions and limitations on any development project that threatened to fundamentally alter prevailing economic dynamics, whilst subjecting them to a form of 'market discipline' that,

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[11] This dynamic is the subject of Chapter Four. For other works that deal with this theme, see Fawwaz Traboulsi, *A History of Modern Lebanon* (London ; Ann Arbor, MI: Pluto, 2007), 109–127; Tareq Y Ismael, *The Communist Movement in Syria and Lebanon* (Gainesville: University Press of Florida, 1998); Irene Gendzier, *Notes from the Minefield : United States Intervention in Lebanon and the Middle East, 1945-1958* (New York: Columbia University Press, 2006), 43–89.

in the case of the Litani project, effectively rendered them unable to fulfill their original promise. Effective, equitable national development was thus rendered far more difficult in such an environment. Chapter Three focuses on the Lebanese banking sector, and its role in the economy, and is centered around a discussion of the major financial crisis that hit Lebanon in 1966 when the country's largest bank, Intra Bank, suddenly collapsed. This chapter seeks to explore how the collapse of Intra Bank exposes many of the dynamics described above - the instability and inequality inherent in the Lebanese economic order, as well as efforts by the ruling elite to contain and marginalize any elements viewed as a threat to their hegemony, including the immigrant founder of Intra Bank, Yusuf Beidas. The downfall of Intra Bank led to numerous changes and reconfigurations of the Lebanese economy, but in a way that did not fundamentally alter its general structure and trajectory.

Finally, Chapter Four, examines the political realm, and focuses on the ways in which sources of dissent and reformism were contained and neutralized by the ruling elite. This chapter examines the fate of the LCP in the first decade after independence, and its effective marginalization, partly as a result of its own actions, and partly as a result of an active state campaign against it. The chapter also looks at the fate of organized labor and efforts by reformist elements to win a greater voice within the labor movement. The neutralization of the LCP, and of leftwing elements in the labor movement, were consequences of the efforts to delegitimize any threats to the status quo, efforts which were largely successful for a time, but which ultimately produced growing centers of dissent in the unofficial, marginal spaces of Lebanese politics that were increasingly beyond the reach of the state. This led to the emergence of radical political groups, unofficial workers' committees, rural reform movements and other forces by the early 1970s, and it was these new political forces that helped to bring the Lebanese postcolonial order to an end in 1975.

Methodological Approaches and Challenges

As a result of funding limitations, I was only able to work in Lebanon for a few months, and the short duration of my research trip to Lebanon was compounded by the fact that there is, unfortunately, no comprehensive state archive in Lebanon that contains material from the pre-civil war period, as much of the material produced by state bodies prior between independence and 1975 is officially regarded as having been lost during the chaos and destruction of the civil war years.[12] As a result, this project has relied heavily on Western diplomatic archives for its source material and evidentiary base, particularly the voluminous records of the US embassy in Beirut. These records provide a relatively detailed picture of the political and economic situation in Lebanon during the period of

[12] An official state archive does exist in Lebanon, but it does not contain official documents from the period covered by this dissertation.

study, as it appeared to the Western diplomatic personnel who were stationed in the country during that time. These sources provide a level of detail that is difficult to find elsewhere, particular in areas such as economic affairs, labor activity and internal, 'behind-the-scenes' political struggles and negotiations. Foreign diplomatic posts employed specialists in a variety of fields, including economics, agriculture, science, labor affairs and the oil and aviation industries, which allowed such posts to produce reports that provide a useful level of analysis for the historical researcher. In many cases the producers of these sources also benefitted from a level of access to key Lebanese individuals in politics and business which is difficult to find in other source materials, and it is therefore possible to gain glimpses of discussions and viewpoints that might otherwise be lost. Officials at the US embassy, for example, met regularly with the president, prime minister and other cabinet ministers, as well as members of parliament and other important political figures in Lebanon, whilst other personnel held frequent meetings with businesspersons, labor officials, religious leaders, domestic and foreign intelligence agents, and government bureaucrats. These meetings yielded insights, factual information and personal perspectives that, if used with care and caution, can enrich and enhance the historical narrative, and, in certain cases, can be used to construct alternative accounts of key moments in Lebanese history.

However, there are also important limitations to these sources as well. Firstly, they are the products of a foreign, Western perspective, and this fact shaped, often unconsciously, the kinds of truths that their authors chose to focus on, at the expense of others. The personnel who wrote reports and met with local informants did so with a range of prejudices and biases about Lebanon, the Middle East and the world more broadly, as well as the place of their respective countries within it, and such biases inevitably shaped the accounts that they produced about Lebanon. More specifically, diplomatic reports tended to focus on elite concerns, and to utilize and value elite opinions and perspectives more highly than those of other actors, which resulted in an account of postcolonial Lebanon which downplays, and often completely ignores, a subaltern viewpoint. Even in analyses of non-elite phenomena, such as developments and struggles within the labor movement, there tended to be a much greater emphasis on the perspectives of labor bureaucrats, labor ministry officials, and employers, rather than on rank-and-file workers themselves. Diplomatic accounts are also problematic because diplomatic personnel were typically transient figures on the Lebanese scene, spending at most a few years, and often far less, in the country and thus had a limited ability or willingness to try and reckon with the linguistic and cultural veil which separated them from their local interlocutors. This fact in turn often led to an over-reliance on intermediaries and 'interpreters' of various kinds who could render the complex social world of Lebanon into something recognizable and comprehensible to Western eyes, and rarely were such interpreters motivated by a selfless altruism. The biases and interests of these intermediaries represent, therefore, another factor to be taken into consideration and their presence in these texts limits and constrains the researcher's field of vision.

One of the results of the biases of the diplomatic personnel, the slant towards an elite perspective, and the reliance on intermediaries, was that these sources tend to provide a conservative and static perspective on Lebanese society that perceives the prevailing order

in overly positive terms while reinforcing stereotypes about a supposed Lebanese 'national character'. Diplomatic personnel tended to spend more time with people for whom the prevailing order in Lebanon was a source of wealth, prestige and power, rather than with those for whom that order was a source of misery and marginalization. The former set of people tended to see the Lebanese system as positive, natural, and as the inevitable outcome of a society that was inherently mercantilist, entrepreneurial and politically conservative in nature. Such a viewpoint invariably found its way into diplomatic dispatches, either overtly or in more subtle ways, often through the omission of alternative perspectives that rendered counter-narratives and popular actors invisible.

These issues do not, I believe, irredeemably taint the use of diplomatic sources. It is possible, in conjunction with other types of material, and alongside appropriate secondary sources, to learn much from diplomatic reports. If approached carefully, it is also possible, in some cases at least, to see beyond what particular informants might have intended diplomatic personnel to see. Such a reading 'against the grain'[13] can be aided by the recognition that, even at the elite level, rivalries, feuds, and general struggles for influence and power frequently led many of the figures who appeared in diplomatic reports to become opportunistic critics, and occasionally fierce opponents, of the Lebanese order. Furthermore, Western embassies, and that of the Unites States in particular, were motivated in their monitoring and investigations of developments in Lebanon by a desire to ensure the country's ongoing stability, and its adherence to Western strategic aims in the region. As such, Western diplomatic personnel sought to identify potential threats to the status quo and to Western interests more broadly, and such threats were frequently seen to come from popular sectors of society. Even though diplomatic reports were rife with elite biases, and were often based primarily on information gleaned from elite informants, they frequently sought to understand what was happening outside of the world of the privileged elite, if only to identify and counter systemic threats. This became particularly true by the late-1960s when it was clear that there was rising popular discontent with the prevailing order and a variety of powerful threats were emerging that threatened to engulf the country in protracted conflict. There was, as a result, a spate of US reports in the late-1960s and early-1970s, for example, which aimed to understand what was happening to Lebanese society, and why discontent was increasing.[14] But efforts to understand threats

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[13] The concept of reading 'against the grain', developed by the Subaltern Studies collective, is a argument for the critical reading of elite sources, one which pays close attention to the uses of language, in order to uncover the biases and prejudices upon which such sources are based and to allow alternative narratives to emerge. See, for example, Ranajit Guha, "The Prose of Counter-Insurgency," *Subaltern Studies*, no. 2 (1983): 45–87; Dipesh Chakrabarty, "Conditions for Knowledge of Working-Class Conditions: Employers, Government and the Jute Workers of Calcutta, 1890-1940," *Subaltern Studies*, no. 2 (1983): 259–310.

[14] See for example, U.S. Embassy Beirut to Dept. of State, "Youth in Lebanon, 1971" July 28, 1971, POL 13-2 LEB, Box 2446, Subject-Numeric Files 1970-73, General Records of the Department of State (Record Group 59), National Archives at College Park, MD; U.S. Embassy Beirut to Dept. of State, "Lebanese Discontent, Strikes and Leftist Politics" January 26, 1973, POL 2 LEB, Box 2446, Subject-Numeric Files 1970-73, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.

to, and potential weaknesses of, the Lebanese order were not confined to this period alone, and in earlier years there were attempts to analyze issues such as official corruption and nepotism, the disproportionate influence of the commercial class on domestic politics, and the enduring power of colonial-era bureaucrats and institutions.[15] Again, such efforts were shaped by the prejudices and biases of the investigators, and by the types of sources they tended to rely on for information, but the reports they produced are not without valuable information and insights that are difficult to find anywhere else. In short, the inherent shortcomings of diplomatic reporting, and the need to constantly interrogate the sources on which such reporting was based, should not blind us to the fact that texts such as these remain one of the most consistent and detailed records of events in Lebanon during the postcolonial period. Despite this fact, however, only limited use has been made thus far of Western diplomatic archives for the writing of modern Lebanese history.[16]

In addition to diplomatic archives, this dissertation has made extensive use of the records of the International Bank for Reconstruction and Development (IBRD), now part of the World Bank. The IBRD provided a large proportion of the funding for the Litani River hydroelectric project, which forms the main subject of the second chapter, and the World Bank's archives hold an extensive range of reports and communiqués between the engineers and other experts sent to evaluate the project and monitor its implementation, and the IBRD offices in the United States. The IBRD's Litani project records, which have not hitherto been accessed by historical researchers, and were declassified and approved for use in this dissertation, contain a wealth of detail and insights into the Litani project during the planning and execution phases, including information on many of the problems encountered during the project's realization. Like the diplomatic archive, however, such records cannot be used without a substantial degree of caution, and they suffer from many of the same shortcomings as embassy documents. IBRD staff were predominantly American or European, almost exclusively male, and rarely had more than a minimal level of knowledge of Lebanese society or the Arabic language. The visits to Lebanon by IBRD staff were typically of very short duration, and they frequently relied on local officials to provide them with information and access.

IBRD officials also tended to share a worldview shaped by what was at the time the prevailing paradigm in development theory. It is not possible to give a thorough account of

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[15] See for example, Houstoun-Boswall, H.M. Minister, Beirut to Foreign Office, "Conversation between the Commercial Secretary and M. Rene Busson, President of the Banque de Syrie et Du Liban, about the Serious Economic Conditions in the Lebanon" May 2, 1949, FO 371/75326, The National Archives, UK; U.S. Legation Beirut to Dept. of State, "Influence of French-Controlled Banque de Syrie et Du Liban in Financial System of Lebanon" June 13, 1951, 883a.14, Box 5444, Central Decimal Files 1950-54, General Records of the Department of State (Record Group 59), National Archives at College Park, MD; U.S. Legation Beirut to Dept. of State, "The Political Control Exercised by the Commercial Class in Lebanon" January 21, 1952, 783a.00, Box 4076, Central Decimal Files 1950-54, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.
[16] There are a few important exceptions to this, however. See for example, Traboulsi, *A History of Modern Lebanon*; Gendzier, *Notes from the Minefield*; Marshall, *The Lebanese Connection*.

this paradigm here, but in basic terms it foregrounded the notion that postcolonial states such as Lebanon had fallen behind the developed industrial countries of the West, and held that intensive interventions, by the state and by international organizations like the IBRD, were needed to help them develop and modernize rapidly.[17] At the same time, such 'developing' countries retained many archaic social and cultural features which were a hindrance to modernization, and these features would have to be shed, and replaced with modern (usually understood as 'Western') values, in order for full development to occur. Such a worldview shaped how IBRD staff viewed Lebanon, the kinds of information they sought, and the manner in which they explained developments in the project they were funding, and in the country more broadly. The persistent problems in the organization and management of the semi-autonomous public body responsible for overseeing the Litani project in Lebanon, the Office National du Litani (ONL), were, for example, frequently understood as stemming from cultural factors, in particular an ignorance of, or antipathy towards 'Western' standards, conventions and practices in business and management, rather than being understood as being, for instance, the outcome of political problems and struggles. Nevertheless, as in the case of the diplomatic archive, these issues, significant as they are, do not render IBRD documents useless to the researcher, and a careful and considered approach that is constantly mindful of the problems discussed above can result in much that is of value for a research project such as this.

In addition to diplomatic and IBRD documents, this dissertation has made supplemental use of unpublished dissertations, print media reporting, as well as statistics and reports on economic matters produced by both Lebanese and international bodies, and appropriate secondary sources. Limitations of time and resources meant that it was generally not possible to seek out alternative material, such as private paper collections, that could provide an invaluable source for the historian of modern Lebanon. One exception to this is the use made in Chapter Four of the Arabic-language private papers of Emir Farid Chehab, the head of the Surete Generale, the main civilian intelligence agency in Lebanon, between 1948 and 1958, and a key figure in the state's campaign against domestic leftist and communist forces. These papers, currently housed at the University of Oxford, contain a mixture of official intelligence reports and summaries, communications with informants, and personal reflections by Chehab himself.[18] Such a source can be challenging to make use of, in part because some of the documents in the collection consist of hastily produced handwritten notes, but also because it is often difficult to distinguish between material that was based on information from informants, and that which was largely personal conjecture

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[17] For the development and practice of modernization theory, see Nils Gilman, *Mandarins of the Future: Modernization Theory in Cold War America* (Baltimore: Johns Hopkins University Press, 2003); David C Engerman et al., eds., *Staging Growth: Modernization, Development, and the Global Cold War* (Amherst: University of Massachusetts Press, 2003); George Rosen, *Western Economists and Eastern Societies: Agents of Change in South Asia, 1950-1970* (Baltimore: Johns Hopkins University Press, 1985).

[18] A guide to the Chehab collection is available via the Middle East Centre Archive, here - http://www.sant.ox.ac.uk/sites/default/files/gb165-0384-farid-chehab-collection.pdf

by Chehab or other intelligence officials. There appear to be multiple authors of the material in the collection, and authorship of individual documents is usually not made clear, adding to the difficulties in evaluating the information they provide. Chehab, who is likely the primary author of most of the document collection, was a member of the upper echelons of Lebanese society, albeit a relatively minor one, and likely owed his position to patronage from Lebanon's most powerful political figures. He was also an ardent anticommunist, and a considerable portion of the extant collection is devoted to detailing the evils of communism.[19] These realities mean that it is necessary to tread carefully in making use of a source such as this, and to evaluate the information that it provides critically and cautiously. Nevertheless, Chehab's papers, in conjunction with the other sources discussed above, add valuable insights into Lebanese politics from a key participant in the events of the first decade and a half of Lebanese independence.

These various sources, in particular the diplomatic records described above, form the evidentiary base for this dissertation.

Brief Historiographical Overview[20]

The historiography of Lebanon has, in many respects, been shaped by the question of sectarianism. Many writers have taken the sectarian divisions in Lebanese society as a starting point from which to begin an analysis of Lebanon's modern history, and have traced modern cleavages of sect and religion to older, primordial divisions. Perhaps the most well known of such writers is the late Kamal Salibi, professor of history at the American University of Beirut, who authored several books on Lebanese history between the 1950s and the 1980s.[21] Salibi's earlier works tended to ascribe a primary role to the Maronite community[22] in shaping the modern history of Lebanon, a result of its long historic ties to the West, particularly France, and its general openness to Western ideas, a view which he revised in his most famous work, *A House of Many Mansions*. In the latter work, Salibi downplayed the primacy of the Maronite viewpoint, and argued that modern

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[19] Chehab destroyed some of his papers during the civil war, presumably to protect himself and his sources, whilst other parts of the full collection, such as transcriptions of wiretapped conversations, were retained by Chehab's family either to protect sources or because the material could not legally be held by a UK-based archive. The extant collection only gives us a partial perspective therefore.

[20] This section is not intended to provide an exhaustive account of all the literature on Lebanese history, but rather to highlight major trends and figures, writing since the middle of the last century, in order to provide some context for my own project.

[21] See, for example, Kamal S Salibi, *The Modern History of Lebanon* (New York: Praeger, 1965); Salibi, *Cross Roads to Civil War*; Kamal S Salibi, *A House of Many Mansions : The History of Lebanon Reconsidered* (Berkeley: University of California Press, 1988).

[22] The Maronites are adherents of a Uniate branch of Catholicism, the Maronite Church, that is based in present-day Lebanon, and which has its historical roots in the seventh century AD.

Lebanese history was better understood as a product of the struggles and negotiations between all the sects and tribes that inhabited the region that came to be Lebanon. Salibi began to question many of the foundational myths of the Maronite community and its role in Lebanese history, as well as the notion that a distinct 'Lebanese' entity existed prior to the 19th century, a key belief of many Maronite historians and Lebanese nationalists. Nevertheless, Salibi retained a viewpoint which, as the title of his book implied, saw Lebanon as essentially a society comprised of various tribal-sectarian groupings, and which saw the concepts of 'tribe' and 'sect' as fundamental to an understanding of Lebanese history. Such a perspective has been shared by other prominent academic writers, such as Meir Zamir, whose *The Formation of Modern Lebanon* was based on research in the French and British diplomatic archives, and which retained some of the bias towards the Maronite viewpoint found in Salibi's earlier works.[23] It has also influenced, to varying extents, a range of more popular histories of modern Lebanon, many of which were produced during the civil war years.[24]

During the 1950s and 1960s, there were also a range of studies, often written from a political science or sociological perspective, which sought to analyze the contemporary Lebanese political and social realm through the lens of sectarianism, and to understand how the supposed ubiquity and primacy of sectarian identities shaped the development of modern Lebanese political practices and institutions.[25] In contrast, more recent scholarship has sought to reject the notion that sectarian identities are fixed and primordial, and instead attempt to historicize their emergence in Lebanon. Ussama Makdisi's *The Culture of Sectarianism* attempted to locate the origins of Lebanese sectarianism in the political conflicts and violence of nineteenth century Ottoman Lebanon, and in particularly the upheaval of the mid-nineteenth century that accompanied the integration of the region into the global economy, arguing for the notion that sectarianism is a thoroughly modern phenomenon. Meanwhile, Max Weiss' *In the Shadow of Sectarianism* attempts to complicates narratives of sectarianization still further by focusing on the Shi'ite community, arguing that traditional narratives of the formation of sectarian identities have focused too much on the Maronite experience, and positing instead a more pluralistic dynamic in which sectarian identities were formed and articulated in response to different historical and social factors.

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[23] Meir Zamir, *The Formation of Modern Lebanon* (London; Dover, N.H.: Croom Helm, 1985).
[24] There is an extensive range of popular histories of Lebanon; see, for example, Robert Fisk, *Pity the Nation: Lebanon at War*, 3rd ed. (Oxford: Oxford University Press, 2001); David Hirst, *Beware of Small States : Lebanon, Battleground of the Middle East* (New York: Nation Books, 2010); Sandra Mackey, *Lebanon: A House Divided* (New York: W. W. Norton & Company, 2006); Thomas L. Friedman, *From Beirut to Jerusalem* (New York, NY: Picador, 2012).
[25] See for example, Leonard Binder, ed., *Politics in Lebanon* (New York: Wiley, 1966); Michael C Hudson, *The Precarious Republic; Political Modernization in Lebanon* (New York: Random House, 1968); Leila M. T Meo, *Lebanon, Improbable Nation; a Study in Political Development* (Bloomington: Indiana University Press, 1965).

Others, representing a minority tendency, have sought to reject, or at least sidestep, the question of sectarianism and begin their analysis from a different starting point. Two recent interventions along these lines are Malek Abisaab's *Militant Women of a Fragile Nation* and Fawaz Traboulsi's *A Modern History of Lebanon*, both of which attempt, in different ways, to refocus scholarly attention away from sectarianism and towards other dynamics, particularly class and gender, traditionally neglected in the historiography of Lebanon. While Abisaab's work centers around gender and labor, particularly the struggles of women workers at the tobacco monopoly, the *Regie*, Traboulsi provides a broader sweep of modern Lebanese history that attempts to re-center analysis away from the notion that supposedly primordial categories such as 'sect' and 'tribe' are the only, or best, tools for understanding Lebanese history, and instead combines a materialist approach with a sensitivity to the way in which cultural categories are historically produced, rather than simply pre-given.

There is also an older tradition of scholarly work on Lebanon that attempts to utilize class analysis to understand modern Lebanese society, exemplified in the work of historians and sociologists such as Salim Nasr and Claude Dubar, and in particular their *Les Classes Sociales au Liban*. A few scholars, writing from a political economy perspective, have focused more narrowly on the economic aspects of modern Lebanese history, in particular Carolyn Gates, Marwan Buheiry and Toufic Gaspard.[26] These latter works in particular have formed important points of reference for my own project, and are valuable contributions to the effort to understand Lebanese history beyond the sectarian framework, whilst at the same time possessing limitations. Few deal with the postcolonial period in its entirety, and those which do, such as Gaspard's work, generally ignore important political and social questions, such as the way that dynamics of ethnicity, gender and class shaped economic outcomes. In this respect, Abisaab provides a useful corrective to the tendency to ignore gender dynamics.

Scholars such as Rosemary Sayyigh and John Chalcraft, writing about Palestinian refugees and Syrian migrant workers respectively, widen the scope of Lebanese historiography to include traditionally neglected subjects who were, nevertheless, central to the Lebanese story.[27] In many ways, it is impossible to fully comprehend the dynamics of modern Lebanese history without understanding the role played by both Palestinian refugees and Syrian migrant workers, both of whom, for example, provided the bulk of the labor force in many key economic sectors such as construction. Nevertheless, most of the older, Marxist-influenced labor histories of Lebanon, such as Elias Buwairy's *Tarikh al-*

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[26] Carolyn Gates, *The Merchant Republic of Lebanon: Rise of an Open Economy* (Oxford: Centre for Lebanese Studies in association with I.B. Tauris, London, New York, 1998); Marwan Buheiry, *Beirut's Role in the Political Economy of the French Mandate, 1919-39* (Oxford: Centre for Lebanese Studies, 1986); Toufic K Gaspard, *A Political Economy of Lebanon, 1948-2002: The Limits of Laissez-Faire* (Leiden: Brill, 2004).

[27] Rosemary Sayigh, *Too Many Enemies: The Palestinian Experience in Lebanon* (London: Zed Books, 1994); John Chalcraft, *The Invisible Cage : Syrian Migrant Workers in Lebanon* (Stanford: Stanford University Press, 2008).

Harakah al-Ummaliyyah wa al-Niqabiyyah fi Lubnan (History of the Workers' and Trade Union Movement in Lebanon) and Jacques Couland's *Le Mouvement Syndical au Liban*, typically ignore the Palestinian and Syrian presence within the working class in Lebanon.

My own project is more in line with the intellectual trend that seeks alternative, non-sectarian starting points for any analysis of Lebanese history, and rejects the notion that categories of sect and tribe are the only, or most useful, windows into Lebanese society. Instead it looks to deeper social and material factors that have shaped postcolonial Lebanon, in particular the enduring power and influence of the commercial and financial bourgeoisie, and the policy decisions and general economic trajectory they were able to impose on the new republic following independence from France. This does not mean that sectarianism is not important, that it can be safely ignored, or that sociocultural factors had no role to play in this history, but rather that the material foundations of the postcolonial Lebanese republic, whose construction began with the accelerated integration of Lebanon into the world economy in the late-19th century, help to explain the enduring reproduction of sectarian identities and similar cultural forms, rather than the other way around. In short, this project is intended as a modest contribution to the effort to re-center Lebanese historiography away from the sectarian story in way which allows a more nuanced narrative to emerge, one which creates space for those subaltern characters and groups traditionally neglected in the literature on modern Lebanon, and which offers a more complete explanation for why the postcolonial status quo seemed so stable for so long, and why it finally collapsed in violent civil conflict.

A Short History of Lebanon

This final section is intended to give a brief summary of the history of Lebanon between independence and the start of the civil war in 1975. The main chapters of this dissertation are primarily thematic in nature, and do not adhere to a strict chronology, and so this summary is intended to provide some broader historical context for the events discussed in subsequent chapters.[28]

The territory that is now known as Lebanon was a creation of the post-World War One settlement between the Great Powers, which led to the division of the Arab territories of the former Ottoman Empire between Great Britain and France. Prior to this time, a smaller entity based in the mountainous regions of what is now Lebanon had enjoyed a significant degree of autonomy from the rest of the Ottoman Empire as a result of the violent civil

[28] This summary is not designed to be an exhaustive account, but rather an outline of key events in postcolonial Lebanon. and interested readers are directed to what is currently the best English-language general history of modern Lebanon, Fawaz Traboulsi's *A History of Modern Lebanon*, on which this summary is partially based.

conflict that had occurred in that region in the 1850s and 1860s. This entity, known as the *mutasarrifiyyah,* had an Ottoman-appointed governor, who presided over an administrative council comprised of local notables who were assigned seats according to sectarian quotas.[29] The rest of the territories that eventually composed modern Lebanon, along the coast and to the east of Mount Lebanon, were integrated parts of other Ottoman provinces.

The *mutasarrifiyyah* was canceled with the onset of World War One, and following the Ottoman defeat, France was assigned part of the Arab provinces and created the new states of Syria and Greater Lebanon, renamed in the French-imposed constitution of 1926 as the Republic of Lebanon.[30] The mandate years set in motion dynamics that would accelerate and reach full fruition following independence, in particular the heavy reliance of the economy on trade and services, with a minimalist state that relied on religious and other non-governmental institutions to provide basic social services.[31] The loss of the direct linkage to the broader Arab hinterland that accompanied Lebanon's creation as a separate state, served to strengthen the power and wealth of Beirut's merchants and bankers, who enjoyed a virtual monopoly on foreign trade, while smaller cities such as Tripoli in the north and Sidon in the south, which had relied on regional, inter-Arab trade, declined in importance economically.

The economic and social changes that occurred during the mandate led to the emergence of variety of important new social formations, including a rapidly growing labor movement, a women's movement, new kinds of religious organizations and movements, as well as new mass political parties, such as the Lebanese Communist Party (LCP) and the Lebanese Kata'ib Party (LKP), a rightwing proto-fascist organization that recruited Christian youth. Discontent with the mandate begin to grow, especially after the onset of the Great Depression, and the colonial government was forced by popular pressure to institute a limited public works program to provide employment and stimulate the moribund economy. However, France's own economic and political troubles during the 1930s limited the assistance the metropole was willing to provide to a minor French colony, and demands for greater autonomy and independence were growing by the time the Second World War broke out.

[29] For a thorough account of this period, see Engin Deniz Akarlı, *The Long Peace: Ottoman Lebanon, 1861-1920* (Berkeley: University of California Press, 1993).
[30] 'Syria' was in fact divided administratively into four smaller states, primarily in order to aid colonial control by dividing the population along ethno-religious lines. One of the classic works on the mandate period in Syria is Philip S Khoury, *Syria and the French Mandate: The Politics of Arab Nationalism, 1920-1945* (Princeton, N.J: Princeton University Press, 1987).
[31] For an account of the economic and social changes during the mandate, see Elizabeth Thompson, *Colonial Citizens: Republican Rights, Paternal Privilege, and Gender in French Syria and Lebanon* (New York: Columbia University Press, 2000); Buheiry, *Beirut's Role in the Political Economy of the French Mandate, 1919-39*; Gates, *The Merchant Republic of Lebanon*, chap. 2.

Following the fall of France in 1940, the French Empire was split between those colonies that supported the new Vichy regime under Marshal Petain, and those who backed the Free French forces of General de Gaulle.[32] The colonial bureaucracies of Syria and Lebanon both declared for Vichy, which led to British fears that they would serve as a bridgehead for German control of the Middle East, a fear which grew after the 1941 coup in Iraq which overthrew the British-backed regime and brought to power the nationalist Rashid Ali, who had opened lines of communication with the Nazis. In June 1941, the Allies launched an invasion of Syria and Lebanon and swiftly defeated Vichy forces, returning the colonies to Free French control. However, the weakness of the Free French administration, growing opposition to colonial rule, and pressure from the British, forced the French to agree to a rapid transition to independence. In 1943, a new Lebanese government, under President Beshara al-Khoury and Prime Minister Riad al-Solh, declared independence and revised the Lebanese constitution to remove all references to the mandate. In an attempt to renege on its promises, the French arrested and imprisoned the new government, and imposed direct rule, until a popular revolt and British pressure forced them to release and recognize the new, independent government on November 22nd 1943. Allied troops remained in Lebanon and Syria for another three years however, and it was only after further protests and an abortive French attack on the Syrian capital Damascus, that the full withdrawal of foreign troops was realized in early 1946.

Beshara al-Khoury's presidency was marked by a number of important developments which shaped the postcolonial landscape of Lebanon.[33] At the very beginning of his term, he reached a verbal agreement with Prime Minister Riad al-Solh on the sectarian contours of Lebanese politics, known as the 'National Pact'. This agreement essentially divided all political posts in the government and state bureaucracy along sectarian lines, according to fixed quotas that supposedly matched the demographic weight of each sectarian group.[34] The presidency itself would always be held by a Maronite Christian, the premiership by a Sunni Muslim, and the speaker of the national parliament would always be a Shi'ite Muslim, while seats in the national parliament would apportioned in a 6:5 ratio of Christians to Muslims. The National Pact guided the form of Lebanese politics until its revision at the end of the civil war, while the revised constitution of 1943 promised both a respect for individual rights, and pledged to uphold sectarian politics, two positions which were not always easily reconciled. In addition to the National Pact, an elite consensus around Lebanon's economic and foreign policies rapidly developed. The former is the subject of Chapter One, and a fuller discussion will be left for that chapter, but in essence it entailed an agreement to quickly dismantle wartime economic controls, and to build a largely

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[32] For more on the impact of the Second World War on French imperialism, see Martin Thomas, *The French Empire at War, 1940-45* (Manchester: Manchester University Press, 1998).
[33] For Khoury's term and the onset of independence, see Traboulsi, *A History of Modern Lebanon*, chap. 7.
[34] No official census was taken after 1932, so the exact demographic weight of each group was largely determined by political consensus.

unregulated, externally-oriented, laissez-faire economy that centered on trade, finance and services. With respect to foreign policy, there was an agreement to maintain Lebanese neutrality in inter-Arab affairs and conflicts, and to avoid overtly allying with any one regional power. In practice, given the growing economic connections that the new republic was developing with the Gulf kingdoms and with Western states, Lebanon gravitated towards the emerging 'conservative' camp in Arab politics.

The major foreign policy event of the Khoury years was *Al-Nabka* or the Palestine catastrophe, in 1948. The fallout from the destruction of Palestine and the creation of the State of Israel, and its impact on Lebanon, was complex. The key long-term effects on Lebanon were the arrival of a large refugee population of around 100,000, a small minority of whom brought significant savings with them, and the elimination of the Palestinian ports (especially Haifa), which were now boycotted by the Arab League, as rivals to Beirut in competition for regional and international trade, thus cementing Lebanon's role as the premier trading and financial center for the region. The final breakdown of the colonial-era customs union with Syria, in 1950, also freed the Lebanese to abandon any remaining restrictions on trade activity (see Chapter One). Khoury's presidency came to an end in September 1952, following the 'Rosewater Revolution', which saw massive popular protests thwart his efforts to amend the constitution to allow himself another term in office. He was succeeded by Kamil Sham'un, one of the figures who led the broad alliance of elite figures and political parties that backed the protests, known as the Patriotic Socialist Front (PSF).

Sham'un's presidency saw the economic dynamics set in motion during his predecessor's term accelerate further, as the value of goods passing through Beirut's port grew massively, while an extended construction boom hit the capital Beirut. The Banking Secrecy Law was passed during his tenure, in 1956, which became the bedrock of the Beirut financial sector and helped increase the large flows of capital into Lebanon's banks. It was during this time that significant numbers of migrant workers from neighboring Syria began to arrive in Lebanon to work in areas such as construction and agriculture, eventually coming to constitute a third or more of the total workforce.[35] At the same time, despite public proclamations upon his ascendance to the presidency to combat corruption, institute major reforms and keep Lebanon neutral, Sham'un instead extended the patronage system that Khoury had built whereby a small group of family members and confidantes benefitted from government contracts and other forms of state largesse, whilst publicly moving closer to the United States and Western interests in the region.[36] Sham'un's rule became increasingly authoritarian as he initiated a policy of choosing weak figures who lacked an independent political base as his prime ministers, whilst frequently

[35] For an excellent account of the Syrians in Lebanon, see Chalcraft, *The Invisible Cage*.
[36] For accounts of the Sham'un-era, see Gendzier, *Notes from the Minefield*; Traboulsi, *A History of Modern Lebanon*, chap. 8; Wilbur Eveland, *Ropes of Sand: America's Failure in the Middle East* (London: W.W. Norton, 1980), chap. 23.

bypassing the cabinet and dealing directly with the directors-general of the various government ministries. During the 1957 parliamentary elections, with monetary assistance from the Central Intelligence Agency, Sham'un committed massive electoral fraud with the aim of ridding himself of a growing number of powerful opponents in parliament, and limiting public space to the major sources of opposition to his rule. This move, which left many prominent public figures outside parliament for the first time, only served to ignite the growing anti-Sham'un opposition movement, which reached a head in 1958, when Sham'un made clear that, like his predecessor, he intended to try and amend the constitution and give himself a second term. Coupled with his open support of Western imperialism in the region, his close ties to the United States, and his clear opposition to the rising tide of Arab nationalism, Sham'un began to face massive popular opposition and growing unrest.

The assassination of a prominent leftist journalist in May 1958 provided the spark that ignited a full-scale armed insurrection against the government. By the summer three-quarters of the country was under rebel control, and the government was increasingly embattled and isolated. The national army, under General Fuad Chehab, refused to actively fight the rebels, a task for which is was probably not equipped in any case, and chose to simply contain and limit rebel advances instead. Sham'un moved to invoke the Eisenhower Doctrine, which he had publicly endorsed the previous year, claiming that Egyptian and Syrian forces had infiltrated Lebanon and were actively fighting alongside the rebels in order to impose communism in Lebanon, a claim which UN investigators could later find no evidence for. US marines nevertheless soon arrived in Lebanon and forced an end to the fighting, though in return Sham'un was abandoned as a US ally and forced to step down; a compromise candidate in the form of General Chehab was found, and he was made the new president in September. A brief 'counter-revolt' in late-September by the rightwing forces who had defended Sham'un, particularly the LKP, forced Chehab to accept a role for some of Sham'un's defenders in his new administration, a move which brought the conflict to a final end in October.

Chehab's term was marked by efforts to reconfigure the status quo to ameliorate some of its worst effects, without fundamentally altering its nature.[37] Chehab enacted a number of governmental reforms, including changes to the civil service that partially removed civil service appointments from direct political interference, through the creation of a Civil Service Council to vet appointments, thus helping to improve the quality and competency of state bureaucrats significantly. As a result of his reforms size of the state bureaucracy doubled during his tenure, with the hiring of 10,000 new civil servants, while the sectarian balance within the bureaucracy improved significantly. In addition to this expanded layer of state functionaries, Chehab also used the military, and in particular military intelligence,

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[37] See Traboulsi, *A History of Modern Lebanon*, chap. 9; Kamal Salibi, "Lebanon under Fuad Chehab 1958-1964," *Middle Eastern Studies* 2, no. 3 (1966): 211–26.

the 'Deuxieme Bureau', as key bases of power during his tenure, and the Deuxieme Bureau rapidly became a major feature of the political scene, coercing and coopting, through the dispensing of patronage, rival centers of power and potential sources of opposition to Chehab. The power wielded by military intelligence increased exponentially after a failed coup attempt on New Year's Eve, 1961, which Chehab used as a pretext to cement the control of the Deuxieme Bureau in all areas of domestic political life.

In general terms, 'Chehabism' was characterized politically by the relative marginalization of traditional political figures, and of the legislative branch more broadly, in favor of state bureaucrats, intelligence agents and advisors and technocrats in the executive branch, who collectively constituted the core of Chehab's power base. At the same time, Chehab instituted the first significant public works program since independence, which emphasized rural development, the building of new schools and hospitals, and the development of a free public university, the Lebanese University, whose instruction would be in Arabic, removing some of the barriers to entry to higher education for lower-class Lebanese. He also instituted the first social security program, the National Social Security Fund (NSSF). Alongside such developments though was the ever-increasing importance of financial services and trade activities in the economy, and though Chehab's reforms promised some moves towards social development and a more equitable society, the overall economic trajectory of the country remained heavily slanted towards high-value service activities that benefitted a small minority, while condemning most Lebanese to low wages and insecure employment. A sizable elite opposition began to emerge against 'Chehabism', comprised of traditional political figures marginalized by the new technocrats and Deuxieme Bureau officials, as well as those among the commercial bourgeoisie who feared Chehab's social reforms might start to encroach on their profits. Chehab's successor as president, Charles Helou, was a compromise candidate between Chehab's supporters and the opposition, who lacked a strong political base of his own and was therefore seen as palatable, and easily manipulated, by both sides.

Helou's tenure witnessed the beginning of the breakdown of the Lebanese postcolonial order. It was marked by a number of major domestic and regional crises, including the Intra Bank crash of 1966, the June War of 1967, and the escalating tensions between the Lebanese security forces and Palestinian guerrilla fighters operating from Lebanese territory. The financial crisis that accompanied the collapse of the country's largest bank, Intra Bank, marked the onset of an extended period of economic instability and uncertainty, that is dealt with more extensively in Chapter Three. Such instability was heightened by the regional conflict in 1967, the June War, which saw Israel launch a preemptive strike on several Arab states, rapidly defeating their armed forces and capturing large swathes of territory in the process. In the aftermath of the June War, Lebanon began to be drawn into the Arab-Israeli conflict more directly, as a result of the rising strength and importance of the Palestine Liberation Organization (PLO). Founded in 1964, the PLO had been marginalized hitherto by the major Arab states, especially Egypt, which sought to monopolize the Palestinian struggle for their own geostrategic ends. In the wake of the humiliating defeat of the Arab states in the June War, however, the PLO gained a greater degree of operational autonomy, arguing that only a truly Palestinian-led popular resistance movement could defeat Israel, and drawing on the struggles of oppressed

peoples in Vietnam, Algeria and elsewhere in the Third World. The Palestinian guerrilla fighters began to establish bases in southern Lebanon, near the border with Israel, in order to stage attacks on the Zionist state, to which the Israelis began to respond with increasingly devastating retaliatory raids. This in turn accelerated the waves of migration from south Lebanon to the suburbs of Beirut, which had been sparked by the mounting crisis in rural Lebanon.

The Lebanese government, which had initially tolerated the establishment of a PLO presence in south Lebanon, began to grow concerned at the destabilizing presence of the Palestinian fighters who, in addition to the increasing punitive raids by Israel, were attracting widespread popular support, especially from the poorest and most oppressed in Lebanon, who saw the PLO as a potential shield against state repression. In March 1968, Lebanese security forces clashed with Palestinian fighters, and then in December of the same year, Israeli commandos launched a devastating raid on Beirut airport, destroying much of the national carrier's fleet. In the wake of this attack, the government of the then-Prime Minister Abdallah al-Yafi collapsed and rightwing demands for the expulsion of the Palestinians began to grow. A new government, under Rashid Karami, a prominent, centrist political figure from Tripoli, was formed, but was short-lived; the following year, in April 1969 a violent army crackdown on pro-PLO demonstrations in Beirut and Sidon left scores dead and injured and prompted Karami's resignation and the beginning of a 215-day political crisis. In September the Lebanese army began a campaign against the Palestinian armed groups, whilst Syria, which supported the Palestinians, responded by closing its borders and imposing an economic blockade. The army's failure to make headway, and the ongoing Syrian blockade forced the government to agree, following mediation by the Egyptian leader Gamal 'Abd al-Nasser, to the Cairo Accord in November 1969, which granted recognition and freedom of movement and action to the PLO in Lebanon, in return for respect for Lebanese sovereignty. The crisis was temporarily ended, but it demonstrated the rising power of the Palestinian armed factions within Lebanon, as well as the growing divisions between leftwing and Arab nationalist forces who supported the Palestinians, and the rightwing who sought to expel the Palestinians once and for all.

In 1970 Suleiman Franjiyyeh, another compromise candidate, was elected president as elite divisions over how best to respond to the mounting social and economic crisis, as well as the Palestinian presence, became more entrenched. During the early 1970s the economic situation remained desperate, as inflation soured, unemployment rose and the protracted crisis of rural Lebanon, in which small peasants and agricultural laborers were being increasingly squeezed by powerful agri-business monopolies and wholesalers.[38] Waves of migration to the capital increased, and the already inadequate social and infrastructural services began to buckle under the strain. Net migration out of the country

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[38] For more on the social and economic crisis see, Nasr, "Backdrop to Civil War."

increased to over 10,000 per year, as educated middle-class professionals with the means to do so emigrated to the Gulf states or to the West, depriving the country of thousands of engineers, doctors, teachers and other professionals. Mounting popular discontent with the inequalities and injustices of postcolonial Lebanon led to the rapid growth of new leftist and Arab nationalist political currents, while the rightwing, ultra-nationalist LKP also grew in strength and numbers. The leftist forces coalesced around a new formation, the Lebanese National Movement (LNM), in June 1973, which comprised most of the major leftwing and progressive nationalist parties and groups, and which pushed for radical social, economic and political reforms.

An uninterrupted series of major strikes and demonstrations shook the country during Franjiyyeh's tenure, while the political elite proved incapable of instituting any meaningful reforms, relying instead on the coercive apparatus of the state to limit the rising disorder, with increasingly limited success. In the face of rightwing campaigns against the Palestinians and in defense of the status quo, the LNM and the PLO grew closer together, sharing many of the same strategic aims, and raising the threat of a powerful, united leftwing bloc that could stage a popular revolution against the Lebanese order. In February 1975, a major strike by fisherman in Sidon against a new fishing monopoly, Protein, in which the rightwing leader, and former president, Kamil Sham'un was a major shareholder, ended in violence when the army opened fire on demonstrators. The situation rapidly escalated as massive popular protests erupted against army repression, and leftist and Palestinian groups began to clash with the military, while the LKP organized a counter-rally in solidarity with the army in East Beirut. As the government equivocated on how to respond, on April 13th 1975, a failed assassination attempt on a prominent LKP leader led to violent retaliation against Palestinian civilians traveling to the Tel al-Zaater refugee camp, in which 21 Palestinians were killed. In the days that followed fighting broke out between the LKP and its rightwing allies and the LNM-PLO alliance, and the country was plunged into a civil war that was to last fifteen years

Chapter One: The Emergence of the Postcolonial Status Quo

Introduction

The Republic of Lebanon emerged from the Second World War in a somewhat contradictory economic position. On the one hand, the wartime period had seen the fortunes of Lebanon's mercantile elite expand rapidly as shortages of essential goods, hoarding, and large-scale Allied military expenditures, created inflationary pressures that were among the strongest in the Middle East region. Between 1939 and 1946, for example, cost of living indices rose six-fold, while inflationary pressures led the money supply to rise from around LL55 million to LL400 million, with the Allied armies pumping tens of millions of francs and pounds sterling into the local economy.[1] Although Lebanon, like Syria, was no longer a direct battleground in the global conflict after the allied invasion of 1941, the country remained a staging ground for allied operations elsewhere in the region, an important source of agricultural commodities and a center for the manufacturing of necessary war materiel. Tight controls over international shipping necessitated a shift away from a reliance on imports and towards more autarkic industrial policies. Yet, as this chapter will show, just as the First World War had presented great opportunities to the mercantile bourgeoisie, even amidst immense human suffering, so the Second World War helped tip the balance of power within the ruling elite away from industrialists and producers and towards merchants and financiers, even as it precipitated a temporary boom in industrial production.

At the same time, however, the influx of wealth from foreign sources accrued almost entirely to the bourgeoisie, and was accompanied by an internal transfer of wealth from workers, peasants and the poor to the rich, by virtue of the huge increase in prices that was a consequence of the profiteering activities of the merchants and industrialists alike. As the bulk of the Lebanese population struggled to pay for food, clothing and shelter, the Lebanese elite prospered and amassed huge savings. This created immense social and economic tensions that began to surface with increasing vigor as the war progressed. They were temporarily submerged beneath the political struggle for independence from France in 1943, but rapidly resurfaced again, especially following the final withdrawal of French troops in 1946. The legacy of these struggles, in the immediate post-war period, was an increasingly energized and well-organized labor movement and a resurgent Communist

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[1] Total Allied expenditures in the Levant states between 1941 and 1945 have been estimated at £SL800 million (around £GBP 90 million). To give a sense of the impact and relative weight of such amounts, Allied expenditures in 1942-3 alone were estimated at £GBP 28 million, equivalent to over three times the combined government budgets of Syria and Lebanon for that period, or one third of total national income. Gates, *The Merchant Republic of Lebanon*, 53.

Party, the members of which played a key leadership role within the trade unions. The reality of a resurgent left would have important ramifications for the future of a postcolonial Lebanon.

In the years following the French withdrawal, a struggle took place to determine the shape of postcolonial Lebanon, and the economic trajectory it would follow. Ultimately, this struggle was won by those who favored the establishment of an economic system that was liberal in the classical sense, favoring free trade, minimal government regulation and a sound, gold-backed national currency. Such a set of arrangements was in sharp contrast to the policies being pursued in most of the rest of the postcolonial world, which were, in keeping with the dominant Keynesian ethos of the period, much more *dirigiste* in nature. The adoption of this liberal economic paradigm would shape the future of independent Lebanon, and would form the contours of struggle between different elements of the ruling elite on the one hand, and between the ruling class and Lebanese workers and peasants on the other. The efforts on the part of the dominant section of the ruling class, the mercantile and financial bourgeoisie, to sustain the pact would necessitate the formulation of a political strategy that could contain popular dissent effectively without building the kind of large state apparatus that could more ably build support for the status quo, but at the expense of a liberal economic strategy.

This chapter aims to explore a number of related issues. In broad terms the chapter will set the stage for more detailed discussions in later chapters, by providing an overview of how the political economy of postcolonial Lebanon came into being. It begins by exploring how the legacy of wartime conditions helped to shape the postcolonial political and socioeconomic landscape of Lebanon. Secondly, it provides a description of the dominant sections of the Lebanese elite, who the key members of this elite were, and how they influenced policy in their own interests, along with the role of the residues of the French colonial administration, in particular the director of the French-owned Banque de Syrie et du Liban, Rene Busson. It was this faction of the elite, the commercial bourgeoisie, alongside figures like Busson, who were responsible for establishing the liberal economic terrain on which postcolonial Lebanon was built. Thirdly, the chapter explores how this faction of the elite shaped government policy to facilitate the emergence of what I am calling, following fiscal expert Benjamin Higgins, an 'appendage economy'. Some of the specific dimensions of fiscal, monetary and trade policy are explored in this section, along with key moments in the immediate post-independence period, such as the signing of the Franco-Lebanese Monetary Accord in 1948. In the final section of this chapter, I outline the contours of the 'appendage economy', as it came into being following the successful actions of the commercial bourgeoisie in the late-1940s and early-1950s.

One primary argument guides this discussion, namely, that the history of the whole era from World War Two to the outbreak of the 1975-1990 conflict is best understood as having been primarily shaped by the economic decisions that were taken by the dominant faction of the Lebanese elite in the immediate postcolonial period. That is to say, the efforts to impose a liberal economic paradigm, and the ongoing struggles to oppose it, alongside the profound political, economic and social consequences of the terms of the paradigm, were the primary determinants of modern Lebanese history. This basic thesis stands in

contrast to the notion that the legacy of the National Pact[2], and the shifts and renegotiations of power-sharing arrangements between confessional groups was the primary motivator of modern Lebanese history. This is not to deny the role played by sectarianism, but rather to assert instead the primacy of other, deeper factors which sustained and perpetuated sectarianism as a part of a political strategy that kept the mercantile bourgeoisie in a hegemonic role and the political economy of Lebanon within specific boundaries. An examination of the nature and action of these deeper factors constitute the substance of this first chapter.

The Legacy of WWII

The Second World War was the impetus for major economic and social transformations in the Middle East.[3] The war years saw a sharp rise in industrial production throughout the region, as world trade ground to a halt and merchant shipping was diverted to serve essential war needs. The resultant decline in Western industrial exports led countries in the Middle East, as elsewhere, to pursue semi-autarkic economic policies in order to meet domestic consumer demand, and to meet the needs of Allied forces stationed in their territories. The Allies sought to manage local resources more efficiently to reduce shortages and supply military needs, working through new wartime economic management bureaucracies such as the Anglo-American 'Middle East Supply Center' (MESC) and the French 'Office de l'economie de guerre' (OEG). The expansion of domestic industry had a huge social impact, as the ranks of the working class were swelled by rising labor needs, and the presence of large Allied military installations sparked a sharp increase in demand for waged labor, creating around 30,000 jobs in Syria and Lebanon and, temporarily at least, all but eliminating unemployment.[4] The broad economic changes initiated by conditions of global war, and in particular the imposition of import-substitution and semi-autarky, impacted the ongoing struggle in Lebanon between

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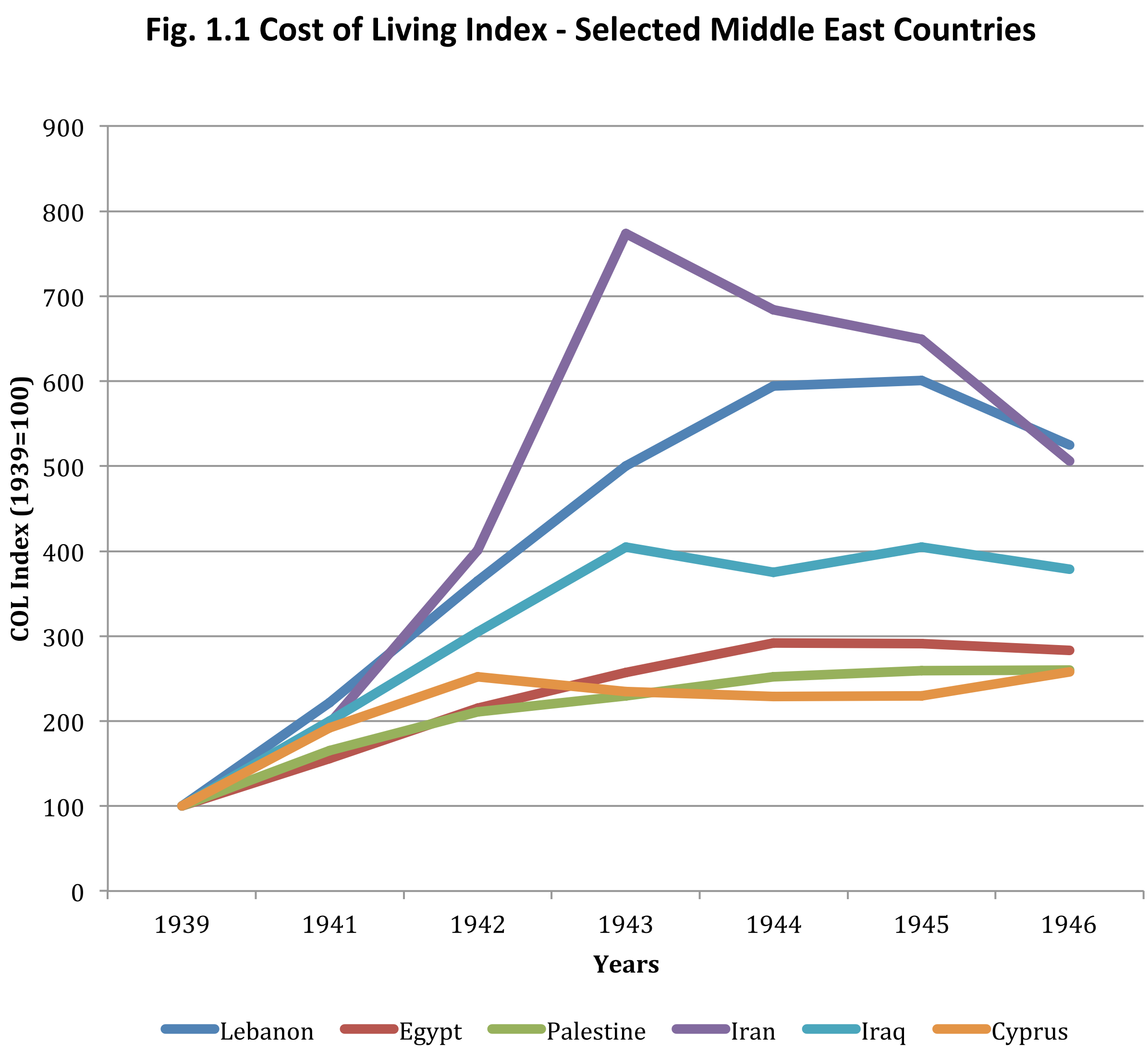
[2] The National Pact was the verbal agreement between President Beshara al-Khoury and Prime Minister Riad al-Solh in 1943, which defined the system of confessional politics that saw every level of the political structure from the division of posts in the executive branch, to the proportion of seats in the national parliament, divided among the different confessional groups according to their proportion in the total population.
[3] See for example, Robert Vitalis and Steven Heydemann, "War, Keynesianism, and Colonialism: Explaining State-Market Relations in the Postwar Middle East," in *War, Institutions, and Social Change in the Middle East* (Berkeley: University of California Press, 2000); Elizabeth Thompson, "The Climax and Crisis of the Colonial Welfare State in Syria and Lebanon during World War II," in *War, Institutions, and Social Change in the Middle East* (Berkeley: University of California Press, 2000); Tariq Tell, "Guns, Gold, and Grain: War and Food Supply in the Making of Transjordan," in *War, Institutions, and Social Change in the Middle East* (Berkeley: University of California Press, 2000).
[4] Gates, *The Merchant Republic of Lebanon*, 49.

merchant capital and the industrialists, appearing to tip the balance of power, temporarily at least, in favor of the latter.[5] The reality, as we shall see, was more complex however.

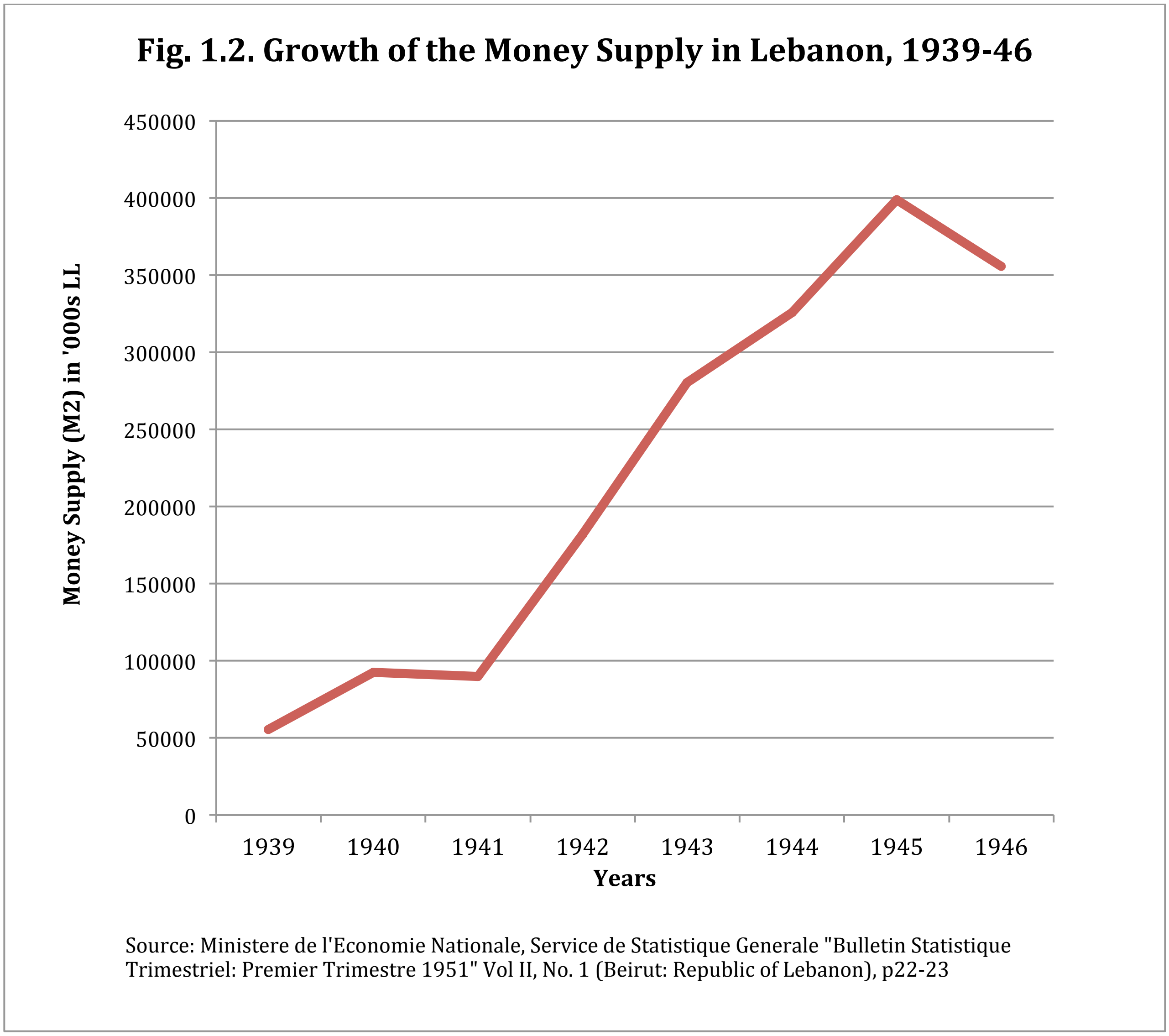
Like other French colonies, and indeed those of other European states that fell under Nazi occupation during the war, Lebanon's wartime experience was shaped in part by the fall of the colonial metropole in June 1940 and the establishment of the pro-Axis Vichy regime. When France fell, the conservative French High Commissioner, Gabriel Puaux, appointed in late 1938, remained in charge and ensured Vichy control over the Levant colonies. General Henri Dentz arrived in December 1940, coinciding with heightened Allied anxieties over German plans to use French military installations in the Levant to threaten British control elsewhere in the Middle East. The nationalist coup in Iraq in April 1941, and the collaboration between the regime of coup leader General Rashid Ali and the Nazis, provided further impetus to neutralize any possible threat from the Levant. In June 1941 the Allies invaded Syria and Lebanon, culminating in the surrender of General Dentz's forces on July 14th and the instatement of the Free-French General Georges Catroux as the new French ruler.[6]

Once installed in Lebanon and Syria, the Allied forces, primarily under British command, increased their efforts to manage the economies of the Levant states in ways which would benefit the war effort. Political and economic control was essentially exercised by the Spears Mission, led by British General Sir Edward Spears, which represented the MESC, whilst the French were largely relegated to a subordinate role.[7] However, any rise in living standards that may have accompanied trends such as the spread of wage labor was more than counter-balanced by the rise in inflation during the war. All Middle Eastern states were hit by inflation, but Lebanon was among the worst affected. The cost of living index saw a six-fold increase between 1939 and 1945 (see Fig. 1.1), and whilst prices began to fall towards the end of the war, the rise had been steeper and the fall less pronounced in the Lebanese case.

[5] Ibid., 46–50.
[6] This narrative conforms to the pattern of French colonies in the Middle East & North Africa which, unlike those in West Africa for example, generally remained tied to the Vichy regime until Allied military intervention brought them under Free French control. See Thomas, *The French Empire at War, 1940-45*.
[7] For more on the Spears Mission, see A. B. Gaunson, "Churchill, de Gaulle, Spears and the Levant Affair, 1941," *The Historical Journal* 27, no. 3 (September 1984): 697–713; Aviel Roshwald, "The Spears Mission in the Levant: 1941-1944," *The Historical Journal* 29, no. 4 (December 1986): 897–919; Edward Spears, *Fulfilment of a Mission: The Spears Mission to Syria and Lebanon, 1941-1944* (Hamden, Conn.: Archon Books, 1977).



Source: Enclosure to Merriam to Fliegans, letter of November 6th, 1947, 890e.5017, Box 7205, Central Decimal Files 1945-49, General Records of the Department of State (Record Group 59), National Archives at College Park, MD



The primary cause for this dramatic spike in prices was the influx of capital in the form of Allied wartime expenditures and the profiteering activities of Lebanese merchants.[8]

[8] Capitalizing on wartime conditions of scarcity, the Lebanese elite were able to make huge profits, and in the first year of the Allied occupation, just seven merchants and industrialists made a total of £SL 42 million in profits. Although a tax on war profits was imposed by the government, it was successfully evaded by most of the elite, and by 1944, the head of the Merchants' Association estimated that his members owed the government at least £SL 21million in unpaid taxes. Gates,

Much of the Allied wartime expenditures were paid for by printing local currency, backed by sterling and franc deposits in Europe, which resulted in a rapid expansion of the money supply, which grew by over 600% between 1939 and 1945 (see Fig. 1.2).[9] Despite the inexorable rise in the cost of living, and the growth of the union movement, workers were largely unsuccessful in securing wage increases that fully matched the level of inflation, and thus saw their real incomes decline, while more of their wages went to meet essential needs.[10] In basic terms, the profiteering activities of Lebanese merchants, along with Allied expenditures, drove a vicious cycle of monetary expansion and inflation that enriched a small elite while pushing the bulk of the population into an increasingly precarious position. A similar process had also taken place during the First World War, and these two global conflicts were instrumental in the formation and consolidation of the modern Lebanese bourgeoisie.[11] It was this dynamic that led French diplomatic staff, in a report written shortly after the end of WWII, to refer to Lebanon as a "parasitic economy" which had had benefitted immensely from the war, without being a direct participant in it.[12] The evident displeasure with which the French colonial authorities viewed the enrichment of the Lebanese mercantile elite during the war was perhaps a factor in the conservative postwar monetary policies of the Banque de Syrie et du Liban (BSL) and its French director Rene Busson, as the latter moved to sharply contract the money supply in the late-1940s with the explicit purpose of encouraging the liquidation of accumulated wartime assets, and "eliminating speculative elements" that had "mushroomed" during the war.[13]

The experience of the textile sector during the war was illustrative of some of the broader trends in the economy at this time, whilst also illustrating how industrialists were able to benefit immensely during the war but were unable to prevent the commercial bourgeoisie from retaining their hegemonic position after the war's end. As the conflict unfolded, the sharp curtailment of competition from foreign manufacturers allowed the major textile enterprises in the country to reap the super-profits that flowed from a captive market and inadequate supply. As Gates argues however, although the textile industry may appear as an example of the benefits the war brought to domestic industry in Lebanon, the reality is more ambiguous. Certainly large profits were made, especially at the two large, modern textile mills, the Asseily mill in Beirut and the Arida Brothers mill in Tripoli, where mid-war estimates of profits by the British occupying authorities were 1,200 and 1,350

The Merchant Republic of Lebanon, 50; Claude Dubar, *Les Classes Sociales Au Liban* (Paris: Presses de la Fondation nationale des sciences politiques, 1976), 62.
[9] Gates, *The Merchant Republic of Lebanon*, 53.
[10] Ibid., 55.
[11] Ibid., chap. 3; Buheiry, *Beirut's Role in the Political Economy of the French Mandate, 1919-39*; U.S. Legation Beirut to Dept. of State, "The Political Control Exercised by the Commercial Class in Lebanon."
[12] "L'Economie Syro-Libanaise Au Cours de La 2e Guerre Mondiale" n.d., Box 323, Series Syrie-Liban 1944-52, Les archives du Ministere des affaires etrangeres (MAE), La Courneuve, Paris.
[13]Houstoun-Boswall, H.M. Minister, Beirut to Foreign Office, "Conversation between the Commercial Secretary and M. Rene Busson, President of the Banque de Syrie et Du Liban, about the Serious Economic Conditions in the Lebanon," 1.. See the last section of this chapter for more on Busson and his role in postcolonial Lebanon.

pounds sterling per day respectively, and the rate of profit in both plants was estimated at over 60% of factor inputs.[14] At the same time though, capacity utilization remained at maximum possible levels, which began to take a heavy toll on machinery, and the sector was characterized by high costs and low quality outputs. As a result of the over-use of machinery, and the difficulties of finding an adequate supply of cotton, capacity utilization had fallen to below 50% by the end of the war.[15] The Asseily mill, for example, had significantly expanded its productive capacity to meet the fall in supply, with the number of spindles at the plant growing from 5,600 to 28,000 between 1939 and 1946, allowing output capacity to grow from 448 tons of yarn in 1939, to more than 2,200 tons over the same time period. But only a small percentage of this new capacity was being utilized by the war's end; yarn production for Lebanon as a whole was only 1,600 tons in 1945 for example.[16]

In short, in a context where demand was drastically outstripping supply, Lebanese textile industrialists could overwork their machines, endure rapid depreciation of their fixed capital, safe in the knowledge that profits were assured and that they could dictate prices in the domestic market. A stark illustration of the profits to be made was that the already severe rise in general prices was outstripped by the meteoric rise in the cost of textile goods (see fig. 1.3). As a wartime survey of the textile sector in Syria and Lebanon by the MESC concluded, however, there was a cost to this business strategy:

> Neglect, ignorance, and greed have all played their part in reducing what should be modern mills to the present bad conditions. The proprietors are simply producing as much yarn as possible with the least possible trouble and expense, happy in the knowledge that whatever the quality they can more less demand their own price.[17]

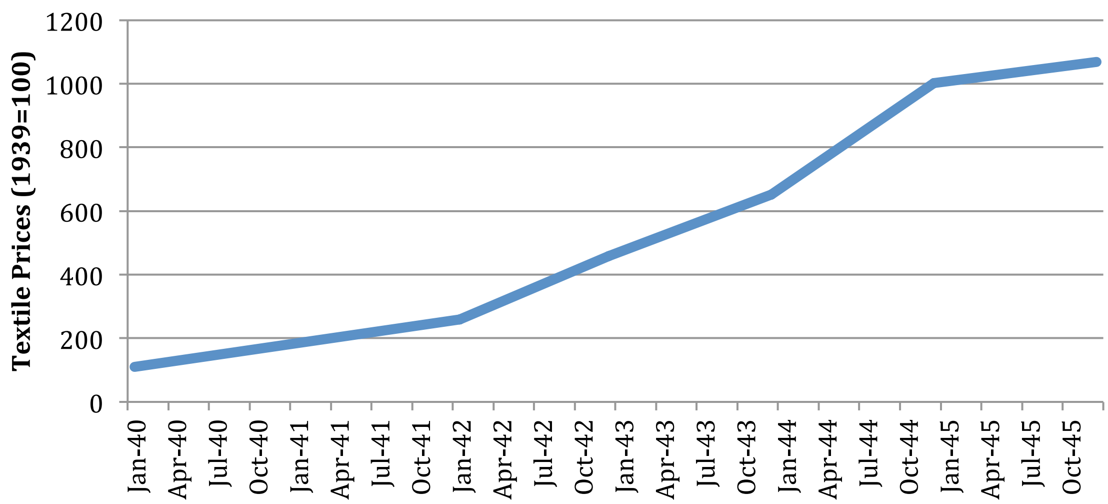
Ultimately, that strategy was clearly premised on the continuation of the special conditions of wartime, and once those conditions no longer pertained, and competition from higher-quality, lower-priced foreign textile imports returned, the Lebanese textile sector was forced to reckon with the severe depreciation of capital and the poor organizational structure that was the consequence of the war, and was quickly thrown into crisis.[18] The fate of the textile sector was mirrored elsewhere in Lebanese industry; while wartime conditions had allowed for great profits to be made, they had failed to rectify deeper structural problems, the profits had frequently come at the cost of accelerated

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[14] Gates, *The Merchant Republic of Lebanon*, 67.
[15] Ibid., 64.
[16] Ibid., 65.
[17] Quoted in ibid., 64.
[18] See for example, U.S. Embassy Beirut to Dept. of State, "An Analysis of the Lebanese Textile Crisis" September 11, 1959, 883a.35, Box 4927, Central Decimal Files 1955-59, General Records of the Department of State (Record Group 59), National Archives at College Park, MD. Lebanese textile manufacturers complained about textile 'dumping' in the Lebanese market, especially from Soviet-bloc producers, and identified this as one of the key post-war impediments to the revival of the industry.

depreciation of equipment. Thus, although a number of industrialists made fortunes during the war, they were poorly situated after the war in competing with the commercial bourgeoisie to shape the country's postcolonial political economy.

Fig. 1.3 Change in Textile Prices in Beirut, 1940-45



Source: Gates, *Merchant Republic of Lebanon*, 183

In the wake of the Allied victory and the ending of the Second World War in 1945 global economic conditions began to change dramatically, and the Lebanese elite were faced with new choices. Many of the special circumstances of war, particularly insulation from foreign imports, the injection of substantial revenues from the Allied military, and the more active role of the (colonial) state in guiding and managing the economy, had quickly come to an end, and domestic producers soon found themselves potentially at the mercy of the global market once again. The key question for the Lebanese bourgeoisie was whether to continue with protectionism and import-substitution, or to begin to dismantle the controls that had been set up to cope with the conditions of wartime, and which had helped enrich industrialists in particular. Ultimately, this question was settled in favor of the commercial and financial bourgeoisie, who preferred the latter option of rapid implementation of laissez-faire policies. Nevertheless, this transition did not happen automatically or smoothly, and the mercantile interests that were the dominant section of the Lebanese ruling class faced opposition to their plans to create a fiscal environment conducive to trading and financial activities, from industrialists, as well as from popular political forces led by organizations such as the Lebanese Communist Party. The following section discusses the composition of the Lebanese elite, as well as the enduring influence of French colonial bureaucrats in the immediate period after independence, before moving on to assess how the elite were able to shape the postcolonial political economy of Lebanon in their own interests.

The Formation of the Postcolonial Economic Regime

The basic nature of the Lebanese economy, as it developed after independence, and following the triumph of commercial and financial interests in their struggle to shape the postcolonial terrain, was captured succinctly in a report prepared in 1960 for the government of President Fuad Chehab by the American economist Benjamin Higgins.[19] Higgins, who was chair of the Department of Economics at the University of Texas, was invited to study Lebanese fiscal policies with a view to making recommendations on possible tax reforms that could raise public revenues and which in turn could help finance national development, as part of a program of technical assistance funded by the predecessor of USAID, the International Cooperation Administration (ICA).[20]

Higgins' investigations of the Lebanese economy, and his subsequent report and recommendations, was one of a number of such interventions by foreign experts over the course of the period between independence and the early 1970s, one of the first of which was the report prepared by the British engineering consultancy, Sir Alexander Gibb and Partners in 1948.[21] These various reports, though differing in their immediate focus, tended to present a similar analysis; the Lebanese Republic had an unusual economic character and, although that character had allowed some degree of prosperity and wealth to accrue to the country, it was undesirable to allow it to persist.[22] Higgins' report was very much in accord with this line of analysis, asserting frequently the "unique" and "peculiar" aspects of Lebanon's economy, and pointing to the central issue facing Lebanese society: "[I]s the Lebanon to become an integrated national economy, or is to remain a financial, trading and services appendage of other economies?"[23] This, in essence, was the decision facing the Lebanese elite on the eve of independence, and which was settled decisively in favor of the latter option, and by the time of Higgins' writing a decade and a half later, a reversal of this choice would likely only have been conceivable in the context of major political and social upheaval. To understand how this decision was made, and how the

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[19] U.S. Embassy Beirut to Dept. of State, "The Higgins Report on Lebanese Fiscal Policy" September 29, 1960, File 501, Box 133, General Records 1936-1961, U.S. Embassy, Beirut, Lebanon, Records of the Foreign Service Posts of the Dept. of State (Record Group 84), National Archives at College Park, MD.
[20] The ICA, established in the mid-1950s as the primary agency responsible for non-military aid, was abolished by Congress in 1961 and its functions transferred to the United States Agency for International Development (USAID).
[21] Sir Alexander Gibb & Partners, *The Economic Development of Lebanon, a Report to the Government of Lebanon* (London: Sir Alexander Gibb & Partners, 1948). The awarding of the contract to Gibb's firm occurred in spite of lobbying by French diplomats for the business to go to a French company instead. Representatives of the major industrial powers were acutely aware that a contract to draw up development proposals (in any country) could yield further benefits in the form of closer economic ties and contracts to finance, supervise or construct development projects.
[22] Other major studies, included the National Housing Study prepared for the government of Kamil Sham'un in 1957 by Doxiadis Associates, the firm of the Greek architect and urban planner, Konstantin Doxiadis, and the extensive study of the Lebanese economy and society commissioned by the Chehab government in the late 1950s by the French research institute IRFED (Centre International de Formation et de Recherches en Vue de Developpement Harmonise) headed by Father Louis-Joseph Lebret.
[23] U.S. Embassy Beirut to Dept. of State, "The Higgins Report on Lebanese Fiscal Policy," 13.

appendage economy came about, it is necessary to understand the composition of the dominant factions of the Lebanese elite, their sources of wealth and primary economic interests, as well as the manner in which they were able to shape the landscape of postcolonial Lebanon to their own benefit, through the institutions of the newly independent state.

The Composition of the Elite in Postcolonial Lebanon

Two documents from the US diplomatic archive provide valuable insight into the individuals and factions that played a dominant role in postcolonial Lebanon, and especially in the first decade after independence when the nature of the postcolonial economy was being determined. The first, a report produced in January 1952, during the term of the then resident US Minister in Lebanon, Harold B. Minor, entitled 'The Political Control Exercised by the Commercial Class in Lebanon' outlines the primary interests, sources of wealth, and interconnections between, the leading personalities in Lebanon. The report was based largely on interviews with a variety of high-profile sources in a position to provide information about the leading figures discussed in the report and claimed knowledge of their sources of wealth and financial dealings. The second report entitled 'Influence of French-Controlled Banque de Syrie et du Liban in Financial System of Lebanon', prepared in June 1951, provides an analysis, compiled by US Legation staff, of the power and influence of the Banque de Syrie et du Liban (BSL) in Lebanon, and in particular the influence of the bank's director, Rene Busson. The sources used for the second report are not listed, but it appears to have been based on information provided by confidential sources supplemented with publicly available documents. There is no suggestion here that these either of these documents presents an uncomplicated, unfiltered view of some of the key forces at work in postcolonial Lebanon, and both were products of an entity, the US Legation, which had a clear stake in the unfolding reality of Lebanon's political and economic landscape. Nevertheless, read with care and caution they provide information on key individuals, both Lebanese and French, who were shaping that landscape, and who were working in ways often hidden and subtle to influence events in their own favor. The documents are thus useful in helping us to understand who the members of the ruling elite in postcolonial Lebanon were, and why they sought to push events and policies in particular directions.

The 'Consortium'

In the decade after independence from France, a relatively small group of individuals came to play a dominant role in shaping the political and economic landscape of the newly independent Republic of Lebanon. These individuals were the most important component of what Lebanese scholar Fawaz Traboulsi has referred to as the 'Consortium', the broader network of key individuals and families who enjoyed a near monopolistic grip on the

commanding heights of the Lebanese economy, and who were successful in translating that control into political hegemony.[24] The US legation report referred to above estimated the total size of the 'commercial class' in Lebanon, by which they meant the large merchants, bank directors and other major financial figures, at around 150-200 people, based, apparently, on the testimony of several well-placed informants with knowledge of the commercial sector.[25] Of this number, the report highlighted twenty-five individuals who were considered to be the most important and influential figures in the consortium, although this also included a small minority whose business interests were primarily industrial in nature.

Within this group there were two primary poles. The first, what the report refers to as the 'presidential clique' contained the seven most influential people in the country, led by the former finance minister, Hussein Oueini, the primary architect of Lebanon's free trade and free foreign exchange policies. Most of the member of this clique were linked to the then-president of Lebanon, Beshara al-Khoury, by ties of blood or marriage, and the group included Khoury's son, Khalil al-Khoury, and brother, Fuad al-Khoury. The second pole was comprised of what the report referred to as 'French banking interests' or the 'French group', and comprised those individuals, primarily Lebanese, but also some French, who were linked to French capital through joint business ventures or control of the major concessionary companies (such as the Port of Beirut and the utility companies). As direct French power waned following the withdrawal of the last French troops in 1946, the local Lebanese agents of French capital increasingly inherited their business interests and economic concerns.[26] Attachment to either of these poles was not exclusive, and most of the members of the president's clique were also important figures in the French group as well. The group as a whole was exclusively male, but was not restricted to any one ethnic or religious group. As the report made clear:

> The class is eminently secular and only incidentally concerns itself with the political divisions of the religious and racial groups. Although there is an undercurrent of loyalty between the commercial leaders, who are largely from the Maronite group, and the French, who have protected them for a century, it is remarkable to note that Sunni Moslems, Shia Moslems, Druzes, Maronites, and Greek Orthodox businessmen, even Holy Patriarchs merge in perfect harmony for profitable transactions.[27]

Many of the members of this elite group were active in the burgeoning import trade and served as exclusive agents for Western manufacturers, and this formed the basis of their wealth. For example, Jean Fattal, number five on the report's list of influential figures in the Lebanese elite, held a virtual monopoly on the importation of Western pharmaceuticals to Lebanon and to the rest of the Middle East, while Alfred Kettaneh (number six) was the

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[24] Traboulsi, *A History of Modern Lebanon*, 115–123.
[25] U.S. Legation Beirut to Dept. of State, "The Political Control Exercised by the Commercial Class in Lebanon," 16.
[26] Ibid., 11.
[27] Ibid., 17.

exclusive local agent of over fifty American industrial concerns, including General Electric and Chrysler. The president's brother (second on the list), Fuad al-Khoury, specialized in importing steel and construction materials, which, in the context of the extended construction boom that Beirut witnessed from the late-1940s onwards, netted him a significant fortune. Other members of the list, such as Henri Pharaon, made their fortunes in banking, or in speculative activities; Michel Doumit, for example, made a substantial fortune speculating in gold.[28] The other significant source of income for many of the individuals on the list was real estate. Pharaon, for example, owned a string of properties on what was then the outskirts of Beirut and when the government invested in the construction of an improved roadway around the city, Pharaon's property portfolio soured in value, allegedly netting him several million lira in profit. Similarly, Doumit invested some of the gains from gold speculation in the construction of a new luxury hotel, the Hotel Bristol, while most of the LL12 million Alfred Kettaneh had invested in Lebanon, was in real estate holdings.

As was discussed at the beginning of this chapter, many members of this group had made their fortunes, or seen their existing fortunes greatly augmented, during the Second World War. Alfred Kettaneh and his brothers made a fortune partly by selling trucks to Iran during the war, and partly by using this trade as a cover for a lucrative gold smuggling operation, while Jean Fattal is described in the report as a 'war profiteer' who made huge sums importing various items during the war, including munitions for the Lebanese military.[29] Among the senior figures within the elite, the exception was Khalil al-Khoury, the president's son, who did not have a fortune based in trade or financial activities. The basis of his wealth and influence was his access to his father, and his ability to act as a 'broker' for presidential favors and privileges. Khalil al-Khoury was, for example, an indispensable contact for anyone seeking to obtain a lucrative government contract, and he was kept on retainer as a lawyer by all the major French concessionary companies, allegedly for fees in excess of LL100,000 per year. Significantly, within the group of seven individuals identified as the presidential clique, none had their primary source of wealth in industry, agriculture or other productive activities, and within the larger list of the twenty-five most important figures, only three could be considered to be primarily industrialists.[30]

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[28] Ibid., 5–11.
[29] Ibid., 8–9.
[30] Of these, two, Albert Esseily and Suleiman Arida, were textile manufacturers who benefitted greatly from the souring price of textile goods during the Second World War, a product of wartime trade restrictions, while the third was Assad Jabre, who owned various light manufacturing concerns, including a brewery, a vegetable oil plant and a textile mill. A fourth figure, Saab Salaam, was head of the one of the most prominent Sunni families in Beirut, and owned a majority of shares in the national airline, Middle East Airlines, but was also an investor in a vegetable oil factory, and was relatively outspoken in his defense of national industry and against the 'laissez-faire' direction of government policy, a viewpoint which kept him outside of the president's inner circle. See Ibid., 13–14.

Two individuals who were not necessarily among the wealthiest persons in the country during this time period, and hence are not among the twenty-five personalities listed, but who nevertheless played critical roles in shaping the political economy of postcolonial Lebanon, were Rene Busson and Michel Chiha. Busson, whose role in Lebanon is discussed in greater detail in the following section, was the director of the BSL, the private French bank that was the *de facto* central bank of Lebanon, and was described in one British Legation report as the 'economic dictator' of Lebanon.[31] Chiha[32], the brother of President al-Khoury's wife and business partner of Henri Pharaon, with whom he co-owned a major bank, was in many respects the intellectual progenitor of the liberal economic policies that Lebanon adopted after independence, the policies that Hussein Oueini, as finance minister put into practice.

Chiha's ideas, which can only be presented in summary here, centered on the notion that Lebanon had a unique national character, one that derived from a series of geographical and historical factors, which had in turn led the Lebanese people to be specialists in trading and financial activities, and their country ideally suited to being an entrepôt for the Middle East region.[33] Such a national character dates back to at least the Phoenicians, the ancient trading civilization of the Mediterranean, who figures such as a Chiha saw as the true ancestors of the modern Lebanese. Given this historical lineage, it behooved modern policy-makers to respect Lebanon's unique characteristics and to pursue a liberal policy framework of minimal taxation, a free trade, free exchange and unregulated financial system, a sound national currency and a minimalist state. Industrialization in any significant form was seen as undesirable, largely because it would comprise a threat to the interests of the commercial class, who benefitted from the import of cheap Western manufactures and thus opposed the kind of protective trade measures which would have been essential to building an industrial base, and also because of fears that industrialization would create social pressures that could bolster leftwing forces and could ultimately threaten the interests of all members of the Lebanese elite.[34] This broad set of ideas came to form a dominant intellectual paradigm among the Lebanese elite, and especially among the commercial bourgeoisie, and was encapsulated in the notion that a laissez-faire system was somehow 'natural' for the Lebanese economy, while the embrace of any other economic paradigm, especially the kind of *dirigiste* model that was in vogue in most of the rest of the postcolonial world in the post-Second World War period, would be a rejection of

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[31] Houstoun-Boswall, H.M. Minister, Beirut to Foreign Office, "Conversation between the Commercial Secretary and M. Rene Busson, President of the Banque de Syrie et Du Liban, about the Serious Economic Conditions in the Lebanon," 1.
[32] Chiha, born into a Christian family in Mount Lebanon in 1891, was a member of the colonial parliament during the French mandate and a close advisor to President al-Khoury after independence. He died in 1954.
[33] For a more detailed summary of Chiha's ideas, see Nadim Shehadi, *The Idea of Lebanon: Economy & the State in the Cenacle Libanais, 1946-54*, Papers on Lebanon No. 5 (Oxford: Center for Lebanese Studies, 1987), 8–11. See also, Michel Chiha, *Visage et présence du Liban* (Beyrouth: Cénacle Libanais, 1964); Michel Chiha, *Propos d'économie libanaise.* (Beyrouth: Éditions du Trident, 1965).
[34] U.S. Legation Beirut to Dept. of State, "The Political Control Exercised by the Commercial Class in Lebanon," 19.

Lebanon's only natural asset, the entrepreneurial spirit that gave the Lebanese people their natural propensity to 'truck, barter and trade.'[35]

This clique of powerful individuals, along with the broader grouping of two hundred or so wealthy merchants and bankers who formed the commercial and financial bourgeoisie, were largely successful in putting into practice the vision that individuals such as Chiha had articulated, and the laissez-faire measures that Hussein Oueini enacted during his tenure as finance minister created the ideal conditions for the further, spectacular enrichment of this elite grouping over the subsequent decades. Through the familial and commercial ties that bound them together as a group, and to the political executive in the form of President Beshara al-Khoury's regime, and those of Khoury's successors, they were able to link the commercial sector of the economy, the basis of their wealth, directly to the corridors of power and ensure that their own interests would be those of the chief policy-makers and would triumph over all other interest groups. Their success in this endeavor was remarkable, and the accumulation of wealth and its concentration at the top of the social hierarchy, discussed in more detail below, was such that by 1971, the top 10% of Lebanese households accounted for almost half of all income, while the bottom 50% of households accounted for just 17%, and only 3-4% of households accounted for 84% of all savings.[36] In a similar vein, a study from 1973 estimated that the average per capita income for those employed in commerce (9% of the workforce) was LL60,000 (equivalent to roughly $30,000 in 1973), compared with LL 8,060 ($4,030) for the entire tertiary sector, LL 1,100 ($550) for industry, and LL 500 ($250) for agriculture.[37] This concentration of wealth at the top of society was a consequence of an economic environment that greatly favored the interests of the commercial elite.

However, the wealth of this group was augmented in ways that were not always reflected in the official statistics and studies on which the above data is based. One important source of income for this group was rent-seeking activities connected with the awarding of government contracts, a prime example of which was the construction of the Beirut International Airport at Khalde, south of Beirut in the early 1950s. Several members of the 'presidential clique' referenced above made substantial sums by over-charging for various construction materials or for contracts for the construction work itself. The extent of the official corruption surrounding this project was revealed by Gabriel Murr the former Minister of Public Works who is credited with conceiving of the idea for a major international airport, and who commissioned a series of expert teams to study the project

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[35] These ideas, propagated by Chiha, were refined and disseminated through elite cultural and intellectual institutions such as the *Cenacle Libanais*. The Cenacle, essentially an intellectual salon, was formally established in 1946 by the writer Michel Asmar, and enjoyed the patronage of a number of wealthy figures. Lebanese nationalism, as espoused by Michel Chiha, formed the ideological backbone for the group. See Shehadi, *The Idea of Lebanon: Economy & the State in the Cenacle Libanais, 1946-54*.
[36] Gaspard, *A Political Economy of Lebanon, 1948-2002*, 75.
[37] Nasr, "Backdrop to Civil War," 12.

and present proposals. The outcome of those studies was a plan which had estimated total construction costs at around LL24 million, but by 1952 total expenditures were already LL45 million. This is perhaps, in and of itself, not unusual for a major public works project in any country, but there were several elements of the expenditures which strongly suggested rent-seeking behavior by members of the presidential clique and other members of the commercial elite. There was controversy, for example, around the purchase of electrical equipment, the costs of which more than doubled from the estimates provided by a team from the Civil Aeronautics Administration (the precursor to the US Federal Aviation Authority), allegedly because of collusion between government officials and private contractors. Similarly the cost of land appropriation for the airport grew 250% from initial estimates to more than LL13 million, again, allegedly because of collusion between landowners and the government.[38]

The clearest instances of corrupt practices in the airport project came during the land-clearing, excavation and construction phases. Four individuals were awarded the contracts for the land-clearing and excavation work, Michel Doumit, Alfred Kettaneh and the Sabbag brothers, Robert and Pierrot, both wealthy financiers, and all of these individuals, according to Murr, substantially overcharged the government, allowing each to earn millions of lira in additional fees for the work.[39] Once construction work was underway, the cement required for the buildings and runways was supplied by the president's brother, Fuad al-Khoury (who was also a member of the 'Airport Commission' that was overseeing the project) from the Chekka Cement company (one of the largest industrial enterprises in the country) that he owned. Again, according to Murr, the state was charged more for the locally produced cement than the total costs, including shipping, of importing an equivalent amount from the United States, allowing the president's brother to accrue substantial additional profits.[40] It is important to note that these allegations largely came from a figure, former public works minister Gabriel Murr, who was outside the inner presidential circle and may well have harbored ill-feeling towards this group as a result of his exclusion from the upper echelons of power. Nevertheless, the consistency and detail in Murr's testimony about official corruption surrounding the project, suggest that there were at least some irregularities, and given repeated rumors and allegations of corruption on other government projects (for example the Litani River Hydroelectric Project discussed in a subsequent chapter) it is plausible to imagine that the individuals mentioned above may well have used their connections to engage in rent-seeking behavior.[41]

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[38] U.S. Legation Beirut to Dept. of State, "The Political Control Exercised by the Commercial Class in Lebanon," 21.
[39] Ibid., 20–22.
[40] Ibid., 22.
[41] It should be noted, with respect to the airport project, that both Murr and the CAA who advised him on the original plans, foresaw a relatively low-cost project. The CAA for example argued against the installation of three 8000-foot runways, the concrete for which was supplied by Fuad al-Khoury, claiming such capacity was extravagant and unnecessary. But, it seems many of the government officials involved in the project sought to make the airport a more

In addition to this kind of semi-legal, rent-seeking behavior, another important source of income for the Lebanese commercial elite was the smuggling of black market goods (including weapons), illegal gold transactions and, in particular, the drug trade. Lebanon's role in the international narcotics trade, especially the production, processing and international trading of opium and hashish, has only recently become the subject of extensive study, and as the most recent study of the subject points out, Lebanon has not typically, in the popular or academic imagination at least, been regarded as major node in the global drug trade.[42] Yet the US Drug Enforcement Agency (DEA) and its precursor agencies in the 1950s and 1960s, regarded Lebanon as one of, if not the, most important site for hashish and opium production and trafficking in the world, and the several, wildly varying, estimates of the importance of this trade to Lebanon's economy, suggest it could have contributed as much as a third or more to gross domestic product.[43] The trade appears to have been so vast and lucrative that virtually all senior government officials, customs agents, senior security personnel, commercial figures and major landowners (especially in the fertile Biqa' Valley area in the east of the country) had some connection to the trade and many derived substantial income from it. It is thus necessary to make reference to it here, given its likely importance to the fortunes of Lebanon's wealthiest individuals, but it is difficult to do more than indicate it is as a factor, given the relative lack of solid information about the exact size and scope of the trade. What does seem certain is that the so-called 'black economy' played a significant role in Lebanon's overall economic prosperity and rise to prominence as a regional trading and financial hub.[44]

French Influence

In addition to the array of Lebanese figures, discussed in the previous section, who comprised the dominant part of the domestic elite, it would be impossible to fully illuminate the forces that the shaped the postcolonial landscape without making reference to French financial interests, and in particular the powerful director of the Banque de Syrie et du Liban (BSL), Rene Busson who, until his fall from grace in 1951, exercised tremendous economic power in Lebanon. As has been mentioned already, the BSL functioned as a *de facto* central bank in Lebanon, issuing currency, regulating the credit market and acting as banker to the Lebanese government. It was also, however, a large

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spectacular undertaking, a reflection of national pride and prosperity. On purely economic grounds too, the CAA's conservatism may have been unfounded given the explosive growth in air traffic to the Beirut International Airport after it opened, and the central position that Beirut came to occupy in the regional air transit business.

[42] Marshall, *The Lebanese Connection*.

[43] Ibid., 179–84.

[44] Marshall also claims that Intra Bank, the largest bank in the country, and in the region for a time, played a significant role in financing the drug trade, allegations which, if true, give further indication of the size and impact of the trade. See Ibid., chap. 3. Intra Bank, and its tumultuous history, is discussed in further detail in Chapter Three of this dissertation.

private bank, and conducted its own credit and banking operations, as well as financing an array of private projects, especially in conjunction with other French interests, such as the French concessionary companies and other private French banks operating in Lebanon such as Banque Indochine and Credit Lyonnais.[45] The bank was established as a private French concern at the end of the First World War and was granted the powers and privileges in Syria (which then included what is now Lebanon) of the former Ottoman Bank, in return for ceding around 25% of its shares to the latter.[46] The BSL thus became the primary banking institution in the new states of Lebanon and Syria. Busson was appointed as director of the bank in 1942 by the colonial administration, following the fall of Lebanon and Syria to British and Free French forces the previous year. Busson's predecessor, Alexis Julien-Laferierre, was considered to be a Vichy sympathizer and was removed, and Busson, a delegate of the *Caisse Centrale* of the *Comite francais de Liberation nationale* (CFLN), was appointed in his stead.[47] His role as director of this powerful institution gave him enormous influence and control over many aspects of the economy of postcolonial Lebanon.

Busson brought with him a set of clear ideas about what Lebanon's role in the region should be. He believed strongly in a "small Christian Lebanon" which acted as a "sort of Singapore" in the Middle East[48], whilst also regarding Lebanon as the "base of a fan" from which French influence could radiate throughout the region.[49] The measures that he took upon taking up his position as BSL director were thus in line with this plan of facilitating Lebanon's development as a regional trading and financial hub under French tutelage. Following his arrival in the country in 1942, Busson was able to achieve the unification of the two feuding French financial groups which had dominated Lebanon during the interwar period, and which had divided control of many of the major concessionary enterprises between them. The Berard group, under the leadership of the then-director of the BSL, Maurice Berard, controlled the *Damas et Hama Prolonguement* (DHP, the railway network in Lebanon and Syria), the Beirut Port Company and the Société Agricole et Industriel du Liban. Its rival, the Philippar group, under the leadership of Credit Foncier

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[45] The expansion of Credit Lyonnais, one of the largest banks in the world, into Lebanon was facilitated by M. Busson, who persuaded the owners of a local bank, Gabriel Trad & Co. to sell to Credit Lyonnais. Similarly, Busson persuaded the brothers who owned Banque Sabbag to sell it to Banque Indochine. U.S. Legation Beirut to Dept. of State, "The Political Control Exercised by the Commercial Class in Lebanon," 12.
[46] U.S. Legation Beirut to Dept. of State, "Influence of French-Controlled Banque de Syrie et du Liban in Financial System of Lebanon," 7. The Ottoman Bank, in spite of its name, was a predominantly Anglo-French financial concern, founded in 1856. Between 1863 and 1924, operating as the Imperial Ottoman Bank, it was the de facto central bank for the Ottoman Empire. It became a purely commercial concern after the new Republic of Turkey established its own central bank in the late 1920s.
[47] Ibid., 9.
[48] Houstoun-Boswall, H.M. Minister, Beirut to Foreign Office, "Conversation between the Commercial Secretary and M. Rene Busson, President of the Banque de Syrie et du Liban, about the Serious Economic Conditions in the Lebanon," 2.
[49] Houstoun-Boswall, H.M. Minister, Beirut to Foreign Office, letter of April 23rd (1948), "Anglo-French Relations in Lebanon", FO 1018/39, The National Archives, UK, p2.

d'Algérie et de Tunisie director, P. Philippar, controlled the Tobacco Monopoly, the Societe des Grands Hotels du Levant and the Societe Foncier de Syrie.[50] Over the course of the mandate, successive French high commissioners had favored one group or the other, but Busson was able to unite the two groups under his leadership with the explicit aim of enhancing French financial control in the Levant, even as direct French political control was gradually slipping away. To further this aim, once the Second World War was at an end, Busson established the *Societe d'Etudes et de Realisations Industrielles, Agricoles et Comerciales* (SERIAC) which was intended to be a successor to the wartime *Office de l'economie de guerre* (OEG), the French institution which, like the Anglo-American Middle East Supply Company (MESC), had controlled most aspects of the Lebanese and Syrian economies in order to aid the Allied war effort. Busson apparently endeavored to obtain for this new enterprise a monopoly on Lebanon's trade with France, as well as dominance over Lebanese industry, the construction sector and major government contracts.[51]

Beyond projects like SERIAC, and his efforts to use his access to the president and his inner coterie to influence policy, Busson had a variety of other tools at his disposal. His control of the BSL's banking and credit operations, for example, allowed him to show favoritism towards those with pro-French sympathies in lending decisions which, in the context of a commerce-dominated economy in which the major actors were heavily dependent on the ready availability of short-term credit, was a powerful tool for exercising influence.[52] More broadly, the bank's status as the Lebanese government's banker, gave it a large pool of capital with which to generate credit facilities, a pool which was significantly augmented by the BSL's consistent failure to distinguish between its functions as a private entity and its role as bank of issue. In theory the BSL was divided into two, an Issue Department and a Banking Department, and the respective assets of the two were nominally kept apart. In reality, the BSL used portions of the funds deposited as cover for the note issue in its credit operations, thus ensuring that it had a dominant role in the Lebanese financial sector, and few, if any, other banks operating in Lebanon could offer credit so readily, and on such terms as the BSL.[53] Conversely, the bank's note issuing

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[50] U.S. Legation Beirut to Dept. of State, "Influence of French-Controlled Banque de Syrie et Du Liban in Financial System of Lebanon," 9.

[51] Ibid., 10. The fortunes of SERIAC were mixed however. Initially denied a license by Kamal Jumblatt, in his capacity as then-Minister for National Economy, it was, after the end of Jumblatt's tenure, able to get this decision annulled, allegedly with the collusion of several members of the president's entourage. However, despite Busson's efforts SERIAC was never able to achieve the unrivaled position of dominance that he had hoped for, probably as a consequence of weakening French financial power in the face of powerful local trading interests.

[52] There were limits to the effectiveness of this tool however. In 1951, Alfred Kettaneh and his brothers found themselves in severe difficulties when Busson suddenly demanded repayment of the LL8 million in credit the BSL had extended them. Busson was forced to back down however following the intervention of President Khoury, who was linked to the Kettaneh's by marriage ties and mutual commercial interests. It was one instance where Busson's ability to use access to credit to wield influence was shown to be secondary to presidential privilege. See U.S. Legation Beirut to Dept. of State, "The Political Control Exercised by the Commercial Class in Lebanon," 9.

[53] U.S. Legation Beirut to Dept. of State, "Influence of French-Controlled Banque de Syrie et Du Liban in Financial System of Lebanon," 8.

privileges were largely beyond the control of the central government, and Busson had the ability to expand or contract the supply of money, to a certain extent, as he saw fit. During 1948 and 1949, for example, Busson initiated a policy of sharp monetary contraction because, he claimed, Lebanon had become rife with "speculative elements" that had "mushroomed up during the war" and were exerting a deleterious influence on the national economy. By contracting the money supply such 'elements' could be induced to liquidate their holdings in gold and fixed assets, which, Busson argued, would allow trade to resume on a sounder basis.[54] Busson apparently intended that this newly liquidated wealth would then flow back into a banking system that was increasingly firmly within his grip, in part through the creation of a new, BSL-sponsored investment bank, and thus reducing that proportion of national wealth that was held beyond the direct reach of the banking system.

Despite these varied mechanisms for perpetuating French influence, however, French power, both economic and political, was clearly waning in Lebanon. For his part, Busson's reign at the helm of the BSL came to an ignominious end in 1951 when, allegedly as a result of dealings of questionable legality, he was abruptly replaced as bank director.[55] French interests more broadly were under pressure as a result of mounting public criticism of the privileges and profiteering of the French concessionary companies, in particular the Beirut Electricity Company, whose tariffs continued to sour even as services deteriorated. In the face of such pressures, the Lebanese government was forced to gradually 'Lebanize' these entities, transferring control to local interests, though without necessarily ensuring greater public scrutiny of their operations and finances.[56] Ultimately, however, it was the growing power and wealth of local, Lebanese interests, coupled with the rising power of the United States, that presaged French decline in Lebanon. Without the political and military clout to enforce measures that disproportionately favored its own commercial interests, such as the tax-exemptions and trading monopolies once enjoyed by French concessionary companies, France could no longer prevent the emergence of potent rival actors, whose access to the Lebanese presidency and other channels of political power gave them the advantages and influence that the French had once enjoyed. By the time the BSL lost its role as central bank to the new Banque du Liban in 1964, French economic and financial hegemony in Lebanon had long become a thing of the past.

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[54] Houstoun-Boswall, H.M. Minister, Beirut to Foreign Office, "Conversation between the Commercial Secretary and M. Rene Busson, President of the Banque de Syrie et Du Liban, about the Serious Economic Conditions in the Lebanon," 1.
[55] The exact reasons for his demise are unclear, but among the competing theories were claims that it was due to his role in a Beirut real-estate transaction that ultimately entailed significant losses to a major religious institution, the Sisters of Charity; his role in an ill-fated investment bubble in Syrian cotton; and his acrimonious relationship with a member of President Khoury's inner circle. Whatever the reality, Busson's demise certainly robbed French interests of a capable advocate for their cause, and French influence only declined after Busson left Lebanon. U.S. Legation Beirut to Dept. of State, "The Political Control Exercised by the Commercial Class in Lebanon," 26–7.
[56] Ibid., 27–8. See also U.S. Embassy Beirut to Dept. of State, "'Lebanization' of the French-Owned Beirut Port Company" May 27, 1960, 883a.053, Box 2795A, Central Decimal Files 1960-63, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.

Government Policy and the Role of the Postcolonial State

In the early years of independence, the consortium, allied to the French interests described above, worked to forge a postcolonial political economy in which their own interests were paramount in the formulation of government policy. The extent to which they were successful in doing so was remarkable. Firstly, they were able to establish a fiscal policy that was driven primarily by a desire to keep public expenditures to a minimum, and the state's economic footprint as small as possible. Public revenues flowed primarily from indirect taxes (especially customs receipts) rather than from the kind of direct taxes that would have required a much more extensive, and intrusive, state apparatus, while public spending was largely limited to meeting the administrative costs of the state, and capital projects were restricted to infrastructure programs that would support those sectors of the economy, particularly trade, from which the wealth of the commercial elite was derived.

Secondly Lebanon's trade and monetary regime was one which greatly favored the mercantile and financial sectors, with policy measures such as a limited tariff structure, the development of 'free zones' at Lebanese ports, and the deployment of immense public resources to ensuring a strong and stable currency. In a similar vein the state relaxed restrictions on currency exchange and allowed Beirut to emergence as a regional and global center for currency trading, whilst establishing an extremely lax regulatory framework for the banking and financial services sector. These policies were often harmful to the productive sectors of the economy, even as they helped ensure the profitability of trading and financial activity.

Thirdly, the state maintained a labor regime that kept wages low and ensured only the most minimal protections for workers, in order to attract foreign capital and support profit creation. In short, government policy was to support and enhance the skewed economic structure inherited from the colonial period, to strengthen Lebanon's hegemonic position in regional trade and financial networks, and to generally take no action that would threaten the interests of Beirut bankers and merchants, regardless of the social costs that might flow from such inaction. With the partial exception of the period following the first civil war in 1958, the so-called 'Chehabist' era when the state appeared to take a more active role in promoting social development, such policies were followed consistently from independence until the civil war of 1975.

Fiscal Policy

The pattern of state revenues and expenditures in Lebanon gives some sense of how fiscal policy was shaping the national economy. On the revenue side, around 57% of state income was derived from indirect taxes and 30% from direct taxes, with the remainder derived from various miscellaneous sources.[57] Of the former, around two-thirds of indirect revenues came from customs duties, with provided roughly 38% of all state income by 1960, with most of the remainder coming from excise duties on tobacco products and inflammables. In contrast, direct taxation in the form of income and property taxes accounted for only around 15% of total government receipts.[58] Such a pattern of revenue, in particular a heavy reliance on indirect taxes, was not unusual for a country recently emerged from colonial rule, but what made the Lebanese case less common was that, given the overall size of the economy, as well as the rapidly growing volume and value of goods passing through the country's ports, the potential revenues available to the state were much higher than those actually collected. A clear illustration of this was in the way customs duties were assessed. Rather than using the market exchange rates the government used a different, 'official rate' for calculating customs duties which was generally around 30% below the market rate, resulting in significantly reduced receipts.[59] Coupled with an epidemic of tax evasion, conservatively estimated at 66% of potential taxpayers and likely far higher, and the pervasive corruption and mismanagement of the tax administration, government revenues were significantly depressed, even below the already meager levels determined by official policy.[60]

This pattern of revenue left the Lebanese fiscal system both highly regressive and vulnerable to sudden economic shocks. The heavy reliance on income from regional trade activity, for instance, rendered Lebanese public finances susceptible to external events and processes (for example, decisions by regional trade partners to develop their own trade infrastructure), and to anything that disrupted the normal functioning of the port, such as labor actions. A prolonged strike by dockworkers' unions, for example, could prevent the collection of customs receipts and thus drastically curtail government revenues. At the

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[57] U.S. Embassy Beirut to Dept. of State, "Lebanon: Budget and Budgetary System" January 27, 1961, 883a.10, Box 2796, Central Decimal Files 1960-63, General Records of the Department of State (Record Group 59), National Archives at College Park, MD, p3-8. These figures are from the late-1950s, and it is likely, given the steady, strong growth in trade that indirect taxes became an even more important source of state revenues. Of the miscellaneous sources of revenue, royalties from the pipelines that transported oil from the Gulf region were the largest single item.

[58]Ibid.

[59] The exchange rate with the US dollar was officially set at LL2.19 for example, whilst the free market rate was more commonly around LL3.20. Higgins also pointed out in his report that the assessing of custom duties on some goods was performed on a weight/volume basis, rather than by value, which also led to a significant under-assessment of tax. U.S. Embassy Beirut to Dept. of State, "The Higgins Report on Lebanese Fiscal Policy," 55.

[60] Ibid., 50. Bribery of tax officials in order to evade tax liabilities was, according to Higgins' investigations, rampant, and he cited the example of a wealthy merchant who avoided a LL100,000 tax bill by paying only LL10,000 along with a LL15,000 bribe to the tax collector.

same time, any claims that the Lebanese state might have been using its revenue raising powers as part of a broader redistributive strategy were also undermined by the realities of the tax system. The heavy reliance on indirect taxes, especially excise duties on consumption goods, tended to hit the poor hardest, whilst the manner in which the system of direct taxes was administered, both in theory and in practice was highly regressive. As Higgins pointed out, the income tax structure appeared relatively progressive, but was in fact much less so, as the gradations in the scale of income taxes left the burden to fall more heavily on middle rather than higher incomes.[61] In practice this was compounded by the endemic evasion of taxation by business enterprises and by members of the liberal professions which left the burden of direct taxation to fall on waged and salaried workers, rather than on businesses and the self-employed.[62] The reality of reduced government revenues is certainly attributable in part to the inefficiencies and management problems of a nascent postcolonial state, and to the legacy of colonial rule, which had deprived the country of an adequate educational and institutional infrastructure for creating an efficient and responsive state bureaucracy. In addition to these factors though, in the context of a system in which policy was being made by an elite who were overwhelming committed to the notion of a small state with limited powers, along with the fact that the under-assessing of customs duties, as well as the regressive income-tax structure, was a political choice rather than simply a question of mismanagement, there are grounds for seeing the reality of the Lebanese state's weak revenue base as also being the outcome of conscious policy decisions.

An examination of the pattern of public expenditure reinforces the notion that the primary concern of policy makers was keeping the state's economic footprint small, rather than pursuing socioeconomic reforms or some form of broad social policy. As Elizabeth Thompson has shown, social expenditures by the Lebanese government in the immediate wake of colonial rule remained relatively low and restricted in scope.[63] The overwhelming majority of state social spending went to health and education, and there were virtually no state welfare provisions, at least until social insurance legislation was finally enacted, in partial form, in 1963.[64] Expenditure on health and education as a proportion of total state

[61] Ibid., 61.
[62] Ibid., 64–5. Based on a report released by the Ministry of Finance on tax returns for the year 1958 (not a typical year, it should be noted, because of the civil war), Higgins concluded that tax evasion by the liberal professions was greatest (over 90% - only a quarter of medical doctors even submitted returns for example) whilst as many as 75% of business enterprises were also evading taxes completely. Higgins pointed out corporate and non-corporate business enterprises accrued half of all national income, and so in 1958 should have had combined revenues of around LL600 million, yet paid a total of only LL19.1 million in direct taxes.
[63] Thompson, "The Climax and Crisis of the Colonial Welfare State in Syria and Lebanon during World War II," 80–89.
[64] Legislation allowing for the creation of a National Social Security Fund (NSSF) was finally passed in 1963, after years of heated debated and in the face of strong opposition from employers. In theory it legislated for a comprehensive range of benefits, including medical insurance, family allowances and termination-of-service indemnities, to be paid for via contributions from both employers and workers. The benefits were to be rolled out in stages, but the scheme was hampered by the persistent refusal of many employers to pay into the fund, and by low enrollment rates by workers, who

spending fell in the wake of World War Two, before recovering slightly to levels roughly equivalent to the colonial era.[65] Compared with neighboring Syria, also a former French colony, social spending remained relatively low in Lebanon, accounting by the early 1950s for only around 14% of total state spending, compared with around 20% in Syria.[66] In general, successive Lebanese governments showed a consistent concern for maintaining a 'balanced budget', rather than allowing public debt to grow to any significant level. For much of the period between the Second World War and the civil war of 1975, for example, the state budget ran a surplus, and when it was in the red, deficits were kept small (see Fig 1.4).[67] Similarly, the growth in public spending generally did not deviate markedly from the growth in the overall economy, and often grew more slowly (see Fig. 1.5).

Beyond spending on health and education, the Lebanese government did engage in a public works program, albeit one of limited scope. A 'Development Works Fund' was created shortly after independence, in April of 1944, and was intended to serve as the primary vehicle for public works and development projects in postcolonial Lebanon. But despite the early institution of this fund, the planning and administration of development projects and public works remained chaotic, and responsibility for planning decisions was divided between a number of entities, some of which, like the Ministry of Planning created in the 1950s, were seriously underfunded and understaffed, lacking the capacity to make meaningful contributions to planning policy. One of the consequences of the lack a strong, central authority with responsibility for public works and development planning, and the

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likely faced heavy pressure by their employers not to participate. Significantly, the scheme did not include agricultural and government workers, and thus excluded up to half of the workforce, and the medical insurance component of the Fund was only activated in 1970 following strong pressure from the labor movement. See U.S. Embassy Beirut to Dept. of State, "New Developments in Social Security" May 25, 1966, LAB 16 LEB, Box 1309, Subject-Numeric Files 1964-66, General Records of the Department of State (Record Group 59), National Archives at College Park, MD; Traboulsi, *A History of Modern Lebanon*, 166–7.

[65] The proportional decline in expenditure was partly attributable to the assumption of national defense responsibilities and other government functions from the former colonial power, France. Thompson, "The Climax and Crisis of the Colonial Welfare State in Syria and Lebanon during World War II," 88–9.

[66] Ibid. The higher rate of social spending in Syria than in Lebanon is remarkable considering that in the former case roughly 45% of government spending was on the military, compared with only around 20% in the Lebanese case.

[67] Developing an accurate picture of Lebanese government finances is not easy, as accounting methods were often imprecise and confusing, and did not always accurately track actual expenditures as appropriations were in some cases approved by parliament but never actually spent, and budget reports did not always reflect this. In general the state budget was divided into an 'Ordinary Budget' into which receipts from taxation and other revenues flowed, and out of which normal government activity was financed. Surpluses from this budget fed the 'Reserve Fund', which, to add to the accounting confusion, was really just a mathematical residual and did not exist as a separate account with the government's banker. This made it very difficult to get an accurate sense of the current state of the Reserve Fund at any given time. In addition to the Ordinary Budget, there were two main extraordinary budgets; the combined budgets of the 'autonomous offices' (which included, for example, the National Lottery, the Wheat Office and the Telephones Administration, as well as the Office National du Litani), which were in theory to be funded from their own revenue-raising activities, and the Development Works Fund, which was financed from the Reserve Fund. For more on the Lebanese fiscal system, see U.S. Embassy Beirut to Dept. of State, "Lebanon: Budget and Budgetary System"; U.S. Embassy Beirut to Dept. of State, "The Higgins Report on Lebanese Fiscal Policy"; Raja S. Himadeh, *The Fiscal System of Lebanon* (Beirut: Khayat, 1961).

lack of a clearly stated and consistent government development policy, was that public works appropriations were frequently subject to political maneuvering, and parliamentary deputies would attempt to channel such expenditures in ways that disproportionately benefitted their own constituents, the wealthiest amongst them in particular, and especially with regards to road-building, potable water and electricity supply projects.[68]

In general though, the pattern of public works expenditures in the first part of the postcolonial period was clear, with a heavy emphasis on projects that facilitated the growth of the dominant economic sectors, particularly trade. Hence, roughly half of all public works expenditure between 1944 and 1957 went to roads, the construction of the international airport south of Beirut (which alone accounted for 27% of all public works spending) and to other airports and seaports (see Fig. 1.6). By contrast, the construction of new schools and hospitals accounted for a combined total of only 2.3% of the total Development Works Fund. Similarly, the largest share of capital expenditures by the Ministry of Public Works, which had a budget separate from the Development Works Fund, went to road construction and maintenance.[69]

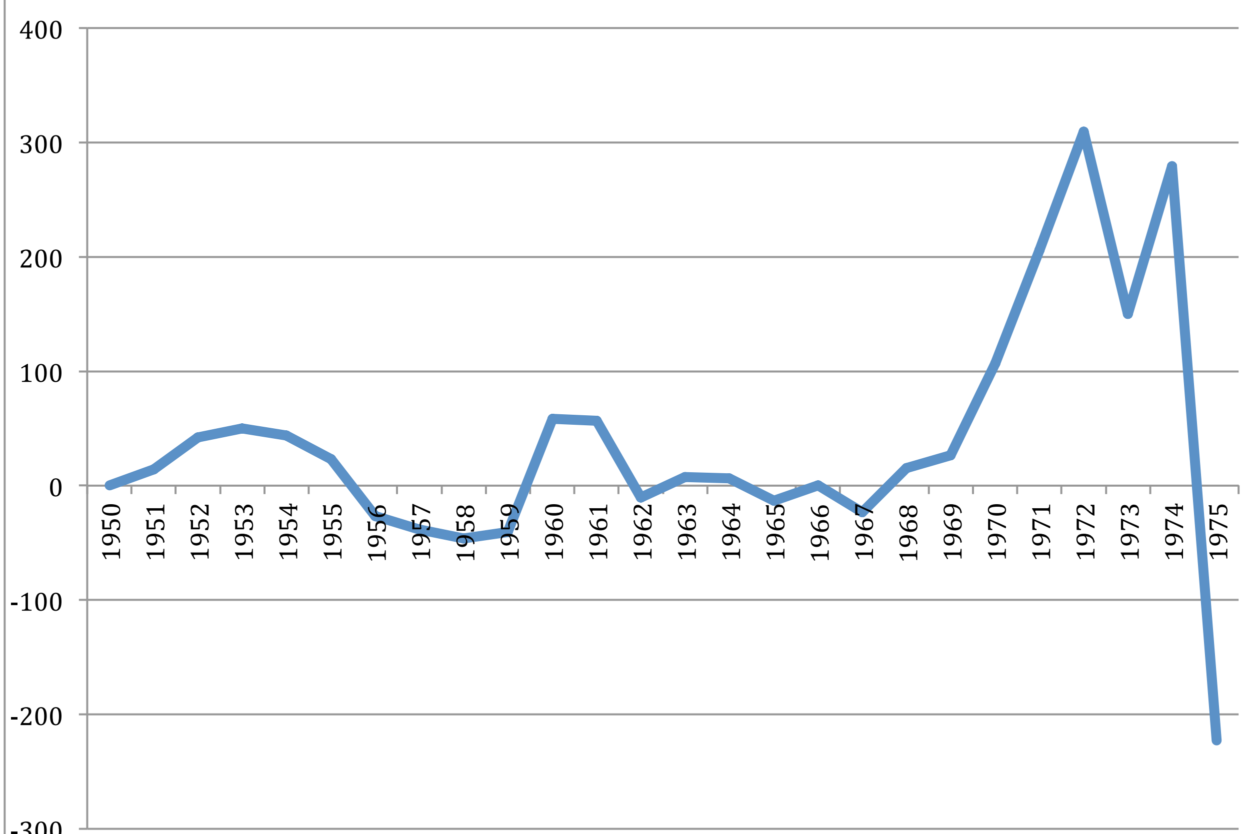
The pattern of revenue raising and public spending by successive Lebanese postcolonial governments was thus clear. The state relied heavily on a regressive system of taxation that favored indirect taxes and a set of direct taxes that tended to focus the burden of taxation on low- and middle-income taxpayers, whilst endemic tax evasion, especially by businesses and members of the liberal professions, exacerbated the trend of taxation being the concern of waged and salaried workers rather than the rich. Undoubtedly some of this could be attributed to the ‘growing pains’ of a nascent postcolonial state, struggling to establish an efficient and effective system of public finances, and burdened with the legacy of colonial underdevelopment. Certainly there were commentators such as Raja Himadeh, an official at the Ministry of Finance, who attributed the poor performance of the government bureaucracy to the cadre of civil servants who he regarded as “in general incompetent and inefficient.”[70]

But, this was clearly only part of the story, and an important part of the explanation for the scope and nature of the activities of the Lebanese state flows from an understanding of the nature of the economy, its dominant sectors (especially trade and finance), and the influence the leading figures in those sectors had on government policy. It was clearly no accident, for example, that customs duties, the largest single source of revenue for the state, were assessed by weight and volume, rather than by value, and at an artificially low rate, benefitting Beirut’s merchants even as it significantly restricted the funds available for public works and social development. Similarly the pattern of spending by the state had a

[68] See, for example, U.S. Embassy Beirut to Dept. of State, “Lebanon: Budget and Budgetary System,” 13.
[69] Ibid., 12–13.
[70] Himadeh, *The Fiscal System of Lebanon*, 91.

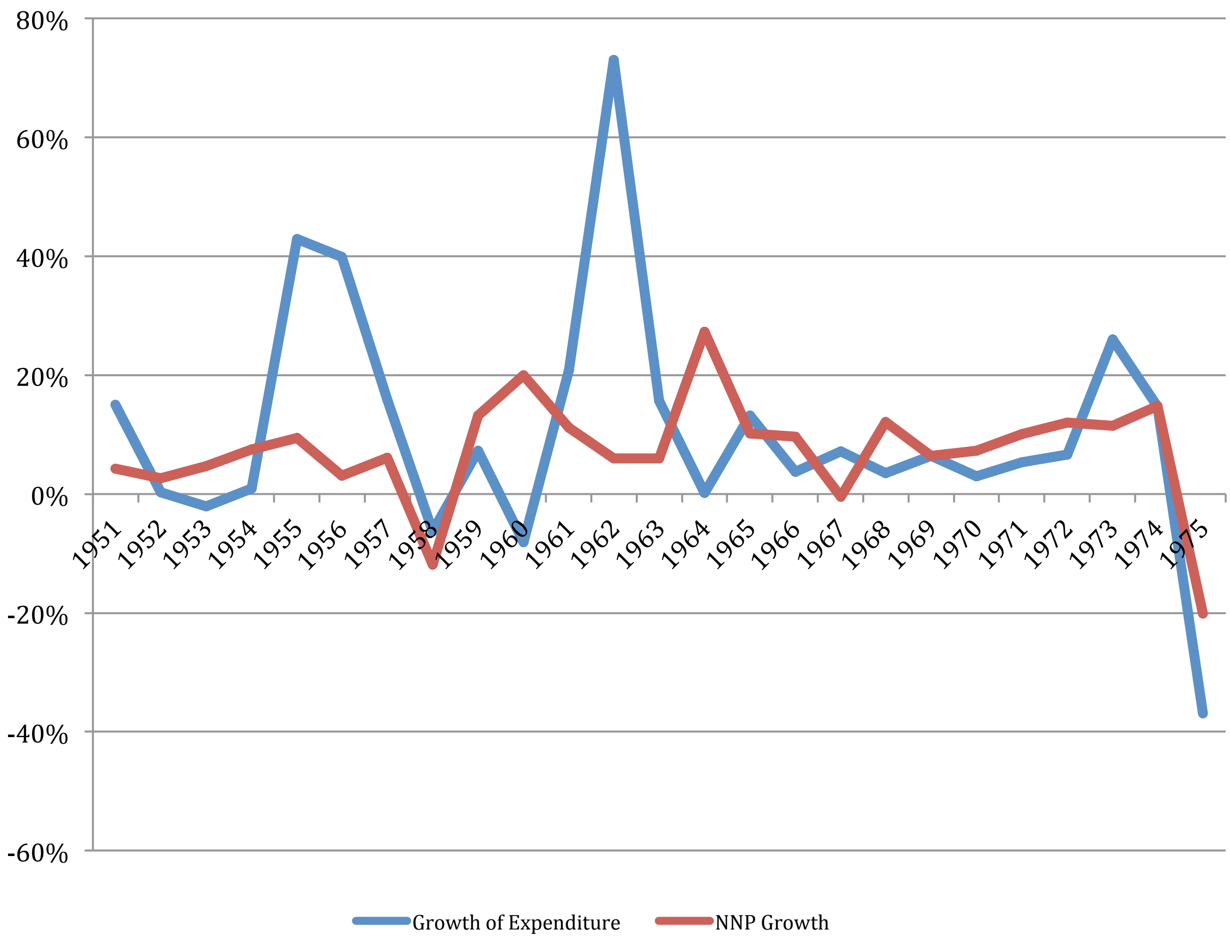
clear bias towards minimizing the state's presence in the economy, while capital expenditures were skewed towards the kind of infrastructure projects (road construction, air and seaport development) that would maintain and enhance the country's role as a regional trading and financial center. Until the 1960s, the state devoted only the most minimal resources to the construction of hospitals, schools and public housing, to agricultural development projects like improved drainage and irrigation works, or to rural development in general, and the bulk of spending was focused on urban projects, especially those focused on the capital, Beirut. These persistent trends in fiscal policy were reflected in other areas of state activity too, in particular, the formulation of monetary and trade policies.

Fig. 1.4 Surplus/Deficit in State Budget 1950-75
(in millions of LL)



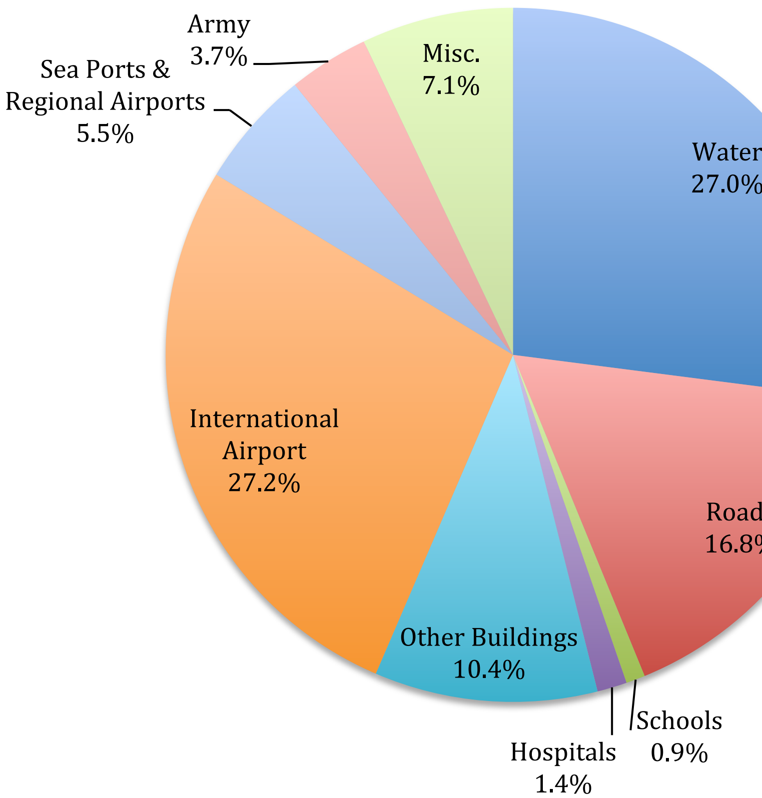
Source: Data taken from Mallet, R *The Economic Challenge* p272-3 (note - some minor arithmetical errors have been corrected in compiling this chart). The figures include combined revenues and expenditures of both ordinary and extraordinary government budgets. The large surpluses in the 1970s were in part due to the central government's policy of appropriating municipal surpluses to fund its own projects, a policy which tended to exacerbate the rural-urban divide in development terms.

Fig. 1.5 Growth in Public Spending Vs. Growth in NNP, 1951-75



Source: Based on data drawn from Raymond A Mallat, *The Economic Challenge: A Master Plan* (Louaize, Lebanon: Notre Dame University, 1988), 36–7 & 272–3. The spike in spending in the mid-1950s was partially due to the costs of nationalizing the Beirut Electricity Company and partially due to increased spending on water projects (see Himadeh, *The Fiscal System of Lebanon*, 97 & 103). The spike in the early-1960s was due to increased spending on the Litani River project and to a substantial increase in spending on other public works projects (see U.S. Embassy Beirut to Dept. of State, “Lebanon - Summary of Economic Developments, Fourth Quarter 1962” February 1, 1963, E 2-3 LEB, Box 3387, Subject-Numeric Files 1963, General Records of the Department of State (Record Group 59), National Archives at College Park, MD, p5).

Fig. 1.6 Distribution of Expenditures of the Development Works Fund, 1944-57 (%)



Source: data from Himadeh, *The Fiscal System of Lebanon*, 97. A large part of the 'Other Buildings' category was comprised of the costs of building the 'Athletics City' sports complex in Beirut, which constituted roughly LL10 million out of the LL18 million spent in this category.

Monetary, Trade & Financial Policy

In the wake of independence from France, the dominant mercantile faction within the Lebanese elite strove to bring monetary stability to the country, and to ensure that the national currency, the Lebanese lira, would enjoy the confidence of both domestic and international financiers. During most of the colonial period a single currency had circulated

in both Syria and Lebanon (the Syrian-Lebanese Lira) which had been tied to the French franc, and as a result of this linkage, the lira experienced the same volatility and the same successive devaluations during the 1920s and '30s as the franc, losing 93% of its value over the course of the Mandate period.[71] The mercantile bourgeoisie were eager to bring this era of volatility to a close, and over the course of the first decade after independence they were successful in laying the basis for monetary stability such that the Lebanese currency became among the most stable currencies in the world, a situation that is particularly remarkable from the present vantage point, given the endemic weakness and volatility that has plagued the Lebanese currency since the 1980s.[72] This monetary stability was achieved via a series of legislative decrees and policy actions enacted in the late-1940s and early-1950s, which saw the gradual receding of direct French influence and a shift to a currency that was independent and backed largely by gold. What is significant about the measures taken by the postcolonial regime is that they were guided by a desire to maintain and strengthen the hegemonic role of trading and financial activities in the economy, regardless of either the impact this might have on other sectors of the economy (particularly industry or agriculture), or of the costs that such measures might have in terms of Lebanon's ability to chart an economic and financial course that was separate from the interests of advanced capitalist states such as France or the United States. The decision to enact these measures thus came at the cost of continuing the under-development of much of Lebanese society, and of the construction and perpetuation of neocolonial relationships with foreign powers.

The first major component of the postcolonial regime's monetary policy was the signing of the Franco-Lebanese Monetary Accord in January 1948. This agreement was the product of protracted rounds of negotiations and, from the Lebanese side, was motivated by a desire to reconfigure the country's relationship with its former colonial master in a manner that would ameliorate some of the worst effects of the unequal structural interconnections between France and Lebanon. Although France's hegemonic grip on Lebanon had been undermined somewhat by the events of 1943 & 1946, French economic power over the country was still formidable, and after the withdrawal of the French military and colonial bureaucracy was represented in particular by the Banque de Syrie et du Liban (BSL) and its powerful director Rene Busson, whose influential role in postcolonial Lebanon was discussed in more detail earlier.[73] The French were guided by a

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[71] U.S. Legation Beirut to Dept. of State, "Influence of French-Controlled Banque de Syrie et du Liban in Financial System of Lebanon," 4.

[72] The Lebanese currency remained relatively stable in the early part of the civil war as inflows of capital in the form of funds for the various warring factions, or remittances from émigrés, continued. A catastrophic monetary crisis in the mid-1980s, the product of a variety of complex factors, saw the value of the Lira plummet however. The LL/$ exchange rate thus declined from a high of around LL2.50/$1 in the early 1970s, to around LL1,500/$1 today. See G Dibeh, "The Political Economy of Inflation and Currency Depreciation in Lebanon, 1984-92," *Middle Eastern Studies* 38, no. 1 (2002): 33–52.

[73] In addition to the French-owned BSL, French interests controlled or had a stake in most of the major economic enterprises in the country in the wake of independence, including the Port of Beirut, the major utility companies, the railroad and the tobacco monopoly. See Gates, *The Merchant Republic of Lebanon*, 93–4.

desire to retain their influence as much as possible and to avoid making commitments that would strengthen the independence of the Levant states, or entail onerous burdens on a postwar France that was struggling through a severe economic crisis.[74] Despite France's domestic crisis, which had pushed the French state to the verge of bankruptcy, Lebanon lacked leverage in the negotiations and was itself in a highly precarious position. Unlike Syria, also a party to the negotiations with France, Lebanon lacked a significant export sector and hence lacked the means to earn hard currency, particularly the desperately sought after US dollar, by selling its products abroad. Furthermore, as Lebanese Foreign Minister Hamid Franjiyyeh informed parliament, the Lebanese government had approached several other foreign powers, including the United States and Great Britain, as well as regional states such as Saudi Arabia and Egypt, to ask them to act as guarantors for a Lebanese currency, but all had refused.[75] The acute nature of the problem was clear to the Lebanese elite; as the franc declined drastically in value after the war's end, Lebanon's increasing dependence (along with much of the rest of the world) on imports from the dollar area was creating significant inflationary pressures and threatening to deepen the country's postwar crisis. This situation left the Lebanese government, with its policy of instituting a strong, credible national currency, with few options but to try to seek some kind of agreement with the French.

As has been mentioned, the French had instituted a single currency for both Syria and Lebanon, tied to the value of the French franc and backed by franc assets, following the establishment of the Mandate, beginning with a decision in 1919 to give the BSL the sole authority to issue the new currency and to effectively act as a central bank for the Levant states, which was then formalized in a convention signed by the French Finance Minister in January 1924.[76] In 1937, two years before the 1924 convention was due to expire, the Lebanese administration, still under French colonial tutelage, renewed the BSL's note issuing privileges until 1964, and established a separate Lebanese lira that remained, however, freely interchangeable with the Syrian lira, still tied to the value of the franc and exchangeable with it at the rate of 20 francs to the lira. In 1939, as war loomed, the French also created an *Office des changes*, attached to the BSL with the power to regulate and distribute foreign currency and foreign capital flows. As the war progressed it became clear that the guiding policy of the *Office* was France's own foreign currency needs, rather than those of the Levant states, and the allocations of hard currency to Lebanon and Syria, especially dollars and sterling, to pay for imports became ever more restricted.[77] These

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[74] Ibid., 96–8; Youssef Chaitani, *Post-Colonial Syria and Lebanon: The Decline of Arab Nationalism and the Triumph of the State* (London ; New York: I.B. Tauris ; New York, 2007), 95.
[75] U.S. Legation Beirut to Dept. of State, "Ratification of the Franco-Lebanese Monetary Agreement" September 2, 1948, 890e.5151, Box 7205, Central Decimal Files 1945-49, General Records of the Department of State (Record Group 59), National Archives at College Park, MD, p1-2.
[76] U.S. Legation Beirut to Dept. of State, "Influence of French-Controlled Banque de Syrie et du Liban in Financial System of Lebanon," 3.
[77] Gates, *The Merchant Republic of Lebanon*, 42–3.

agreements left the lira vulnerable to the extreme volatility that the franc experienced during the interwar period, and also gave the BSL a dominant role in the financial and economic management of the Levant states. When war broke out the conventions allowed France to print local currency essentially without restriction to pay for its wartime expenses in the Levant, a policy which became a major factor in the rampant inflation experienced in Lebanon in particular during this time period. Under the conditions of wartime, the monetary regime thus established created the conditions for hoarding, inflation, and black market trading in restricted currencies, especially those from neighboring sterling-bloc countries such as Palestine. In 1944 the French agreed to a new convention, the 'Catroux Accord', in which they undertook to guarantee the value of the franc balances held in France that were being used as backing for the currency in circulation in terms of sterling, thus, in theory, ensuring the lira against further devaluations of the franc. In 1945, however, following a major devaluation of the franc, the French effectively abrogated the 1944 agreement, claiming that their interpretation of it meant they were only required to guarantee the franc balances against one devaluation and no more.[78]

The monetary uncertainty that ensued from this complex and chaotic state of affairs provided immediate impetus to the Lebanese government to negotiate some kind of settlement with the French. The agreement that was eventually reached, on January 24th 1948, was, as a result of Lebanon's precarious bargaining position, highly favorable to the French. One of the main shortcomings of the agreement, from the Lebanese point of view was that it only guaranteed approximately two-thirds of the large franc balances held by the Lebanese government against further devaluation, and when the franc was once again devalued on January 25th, the day after the monetary agreement was signed, the four billion francs held in Paris on behalf of the Lebanese government that were not covered by the agreement lost around 45% of their value.[79] The Lebanese also committed themselves to 'paying' for hundreds of millions of francs worth of property and equipment abandoned by the French colonial authorities following independence, and to honor the concessionary agreements that gave French companies control over key national assets such as the Port of Beirut and the major utility companies until they expired.[80] Despite these major

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[78] Raymond A Mallat, *70 Years of Money Muddling in Lebanon: 1900 - 1970* (Beirut: Aleph, 1973), 101.
[79] Gates, *The Merchant Republic of Lebanon*, 97.
[80] Gates, *The Merchant Republic of Lebanon*. In his statement to the Lebanese parliament during the debate over ratification of the monetary agreement with France, Foreign Minister Franjiyyeh disclosed the details of conversations he had with his Syrian counterpart regarding the French demand that the concessionary agreements be honored; whereas the Syrians argued the concessions no longer had any legal basis, as they had been drawn up by the French colonial authorities, Franjiyyeh countered that since the legislatures of the two states had ratified the agreements they were in fact legally binding. The difference in legal interpretation revealed here speaks to the very different perspectives the new Lebanese and Syrian regimes had on their common colonial heritage; while the latter was, at least rhetorically, determined to reject that heritage, the Lebanese were generally far more accommodating, and sought a substantial degree of continuity with the colonial past. For more on Franjiyyeh's statement, see U.S. Legation Beirut to Dept. of State, "Ratification of the Franco-Lebanese Monetary Agreement."

shortcomings, however, the Lebanese government regarded the agreement as a success. It laid out a pathway for monetary independence, and allowed the Khoury regime to proceed with its key economic policy of establishing a sound national currency that enjoyed international confidence. In line with this viewpoint, Foreign Minister Franjiyyeh told parliament,

> The agreement which we ask you to ratify is not perfect, but it is the best we could obtain…[it] does not contain any provision of a political nature, nor does it grant any privileges; it is a liquidation pure and simple.[81]

This was, in essence, the stated position of the Lebanese government; the agreement was not ideal, but it did meet Lebanese needs without making onerous compromises and without completely sacrificing Lebanon's hard-won independence from France. This contrasted sharply with the position of Syria, which rejected the agreement as an affront to Syrian national sovereignty, and to those in the Lebanese parliament, such as influential Sunni Muslim politician Sami al-Solh, who agreed with the Syrian assessment. Although Lebanese opponents of the agreement pledged to prevent ratification, the economic malaise that continued to plague Lebanon throughout 1948, exacerbated in part by the fallout from the war for Palestine, persuaded most of Lebanon's political elite that the monetary agreement with the France offered the best opportunity to resolve the postwar crisis and to lay the foundations for postcolonial economic prosperity.[82]

The signing of the Monetary Accord was thus the first major step towards establishing the parameters within which the postcolonial economy of Lebanon would operate. It was followed, a year later, with the promulgation of a new Monetary Law, which reinforced the policy of establishing a sound, credible national currency by decreeing that the backing for the Lebanese Lira should be increasingly composed of elements other than French francs. In the wake of this new law, the Lebanese government began making huge purchases of gold to support the national currency such that the percentage of gold in the currency cover rose from just 2% in 1948 to around 95% by 1955.[83] Such large purchases of gold, relatively unprecedented for a country of Lebanon's size and level of economic development, were remarked upon with some concern by foreign observers, including US and British diplomatic personnel. In response to questions about the large gold purchases the government responded by arguing that the special features of Lebanon's economy, particularly its heavy reliance on trade and services, required a strong and stable national

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[81] U.S. Legation Beirut to Dept. of State, "Ratification of the Franco-Lebanese Monetary Agreement," 4.
[82] U.S. Legation Beirut to Dept. of State, Airgram A-307 (July 15, 1948), 890e.5151, Box 7205, Central Decimal Files 1945-49, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.
[83] Mallat, *70 Years of Money Muddling in Lebanon*, 106.

currency, and the potential volatility of foreign currencies, including the US dollar, made gold the best option for ensuring the stability and credibility of the Lebanese lira.[84]

But, there were suspicions that other factors were in play in the purchases of monetary gold. In January of 1950, a press campaign was initiated against the BSL and its director Rene Busson, alleging impropriety in official gold transactions. In response the Minister of Finance confessed to the Lebanese parliament that the government had been forced to circumvent regulations laid down by the International Monetary Fund (IMF) which forbade free market gold trading by member governments, and that required all government gold purchases be made at the official rate of $35/ounce, determined as part of the Bretton Woods agreements. The minister claimed that dire economic need required gold purchases on the free market (at rates significantly higher than the official $35/ounce rate), but such purchases had been limited and losses to the government by making such purchases above the official rate were not significant. Confidential sources informed the staff at the British legation that, in fact, such purchases had been considerable, and had entailed both great costs to the public purse, as well as, allegedly, significant profits to several key figures in the BSL and the Ministry of Finance, possibly including the minister himself.[85] According to the legation's sources, many of the purchases of free market gold were made from the French-owned Banque de Indochine, a senior representative of which had recently been hired by the BSL to head up its gold operations. The exact truth of such allegations is difficult to determine, but there were certainly aspects of the Lebanese government's dealings in gold which raised questions, in particular the speed with which gold reserves were built up by the bank of issue (the BSL) during 1949 and 1950, contrary to stated government policy, which laid out a much more gradual shift to a gold-backed currency, and without a clear economic rationale. The involvement of senior officials of the BSL, a private French-owned institution, in the affair spoke to wider concerns about the conflict of interest that ensued from having a private, foreign bank act as a *de facto* central bank and bank of issue.

The signing of the Franco-Lebanese Monetary Agreement, along with the supporting domestic legislation, highlighted two key dynamics that underlay the emerging political economy of postcolonial Lebanon. The first was the a clear willingness on the part of the Lebanese political elite to make significant compromises and concessions to foreign powers and interests, even if such concessions entailed a curtailment of Lebanese national sovereignty. The monetary agreement with France, essential to the political elite's policy of ensuring monetary stability, required the continuation of colonial privileges, in particular

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[84] U.S. Embassy Beirut to Dept. of State, "Lebanese Official Views on the Accumulation of Gold in the Currency Cover" November 5, 1962, 883a.13, Box 2796, Central Decimal Files 1960-63, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.
[85] Houstoun-Boswall, H.M. Minister, Beirut to Foreign Office, "Lebanese Government Purchases of Gold as a Backing for the Currency" March 14, 1950, FO 371/82284, The National Archives, UK. The sources alleged the finance minister had personally made around 50,000 pounds sterling in profit in questionable gold transactions.

the concessionary arrangements which left Lebanon's most important economic assets in French hands, including the largest and most important bank in the country. Such willingness flowed from the rigidity and relative narrowness of the political elite's vision for postcolonial Lebanon, a vision which called for, in essence, the construction and perpetuation of a neocolonial economic relationship between Lebanon and the major capitalist powers. Such a relationship, rooted in Lebanon's continuing position as a trading and financial intermediary, would allow for the continued dominance of those sectors of the domestic economy from which the power and wealth of the political elite was derived, and hence the efforts of the key members of the successive post-independence Lebanese governments in pursuing and ratifying agreements that, given other priorities and interests, might have seemed damaging to Lebanon's future independence and prosperity.

The second dynamic, was a growing divergence between the interests of the two Levant states, Lebanon and Syria, the economies of which had, under colonial rule, been closely intertwined. Upon achieving control over the territories in the wake of the First World War and the demise of the Ottoman Empire, the French had effectively treated the newly created entities 'Syria' and 'Lebanon' as a single economy, and had established a joint customs regime and a common currency. Following independence the two states had agreed to continue the customs union (though without complete agreement on the basis on which customs receipts, a key source of public revenue, should be divided between them, or agreement on issues such as a common tax policy) and, at the rhetorical level at least, there was a commitment to achieving greater economic integration.[86]

However, it soon became clear that the core interests of the two states were diverging rapidly, with Lebanon pursuing its aim of establishing itself as a trading and financial hub for the region, while Syria, with much of its national wealth based in agriculture, sought state-led development of its domestic productive sectors. A common customs regime was hardly tenable in such circumstances; while Syrian industrialists and landowners sought protective tariff measures to shield nascent national industries, Lebanese merchants pushed for the abolishment or curtailment of most customs duties in the name of facilitating increased foreign trade. Such a fundamental divergence in outlook made the breakdown of the customs union and full economic separation a likely outcome, and on March 14th 1950 the Syrian government announced an end to the union, following an increasingly acrimonious exchange of communiqués between the two governments.[87] At the time of the breakdown, and following Syria's imposition of tariffs and capital controls on trade with Lebanon, concerns were raised about the impact the loss of access to the

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86 On the Lebanese side, such a commitment was more pragmatic for some than for others. As Chaitani argues, Lebanese politicians with Arab nationalist leanings, such as Prime Minister Riad al-Solh, favored closer relations with Syria on more ideological grounds, whilst those figures with narrower Lebanese nationalist sympathies (a dominant trend among traders and financiers) were generally more hostile to closer ties, but saw the dissolution of the customs union and full economic separation as potentially costly and dangerous. See Chaitani, *Post-Colonial Syria and Lebanon*, chap. 1.
87 Saba E., "The Syro-Lebanese Customs Union: Causes of Failure and Attempts at Reorganization" p93

Syrian market would have on the Lebanese economy. But, much like the monetary agreement with France, the rupture with Syria removed barriers to the central policy aims of the Lebanese government; a strong, stable national currency, financial deregulation, and the establishment of a free trade regime.

By the early 1950s these policy elements were largely in place. In addition to the signing of the monetary agreement, the passage of the Monetary Law and the dissolution of the customs union with Syria, the government also rapidly deregulated the foreign exchange market between 1948 and 1952, removing wartime restrictions on the sale and circulation of foreign currencies and allowing Beirut's foreign exchange market to emerge as the most important in the region.[88] Wartime trade restrictions and quotas were also rescinded, a move which, as Gates points out, had become inevitable once restrictions on foreign currency trading were lifted, as limiting access to key foreign currencies, particularly dollars and sterling, had become the only effective means of enforcing import regulations.[89] In tandem with this, the government removed restrictions on the movement of capital into and out of the country, again in support of Beirut's burgeoning banking and financial services sector, and with the passage of the Banking Secrecy Act of 1956, the only significant piece of banking legislation enacted until the 1960s, Beirut's role as a magnet for foreign capital was firmly entrenched.

The enactment of these measures was not without significant opposition, particularly from those sections of the Lebanese bourgeoisie whose wealth did not primarily derive from trading or financial activities. The Association of Lebanese Industrialists, led by the textile manufacturers the Arida and Asseily families, strongly protested the removal of protective tariffs and import restrictions, and demanded a comprehensive program of support for domestic industry.[90] In this campaign they were joined by the labor movement, which also supported calls for greater government aid to Lebanese industry. Industrialists threatened, and in some cases staged, lockouts and shutdowns of factories if their demands were not met. In the spring of 1949, for example, the *Filature National de Coton* the second largest textile plant in the country, owned by the Asseily family, was shutdown by its owners, putting 1,500 employees out of work, in protest at the lack of government support for domestic manufacturing.[91] In the context of the high employment plaguing Lebanon in the late-1940s, these kinds of actions greatly worried the government, and led to the imposition of limited protective trade measures, particularly on imported textile goods. But, the overall trajectory of government policy remained unchanged, and the relative

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[88] The importance of the Lebanese foreign exchange market was such that the CIA used Beirut as the primary center for laundering funds and for the procurement of cash needed to fund covert political action in the Middle East. See Eveland, *Ropes of Sand*, 217–18.
[89] Gates, *The Merchant Republic of Lebanon*, 88.
[90] Ibid.
[91] U.S. Legation Beirut to Dept. of State, Airgram A-169 (May 23, 1949), 890e.60, Box 7206, Central Decimal Files 1945-49, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.

weakness of industrial interests, whose large wartime profits rapidly diminished once foreign competition resumed, were unable to mount an effective challenge to the dominant financial and trading interests that were the main drivers of government policy.

Labor & Social Policy

Beyond its role in setting policy in areas such as fiscal and monetary affairs, as described above, the state also played a role in shaping the terrain of employment, through its labor, educational and social policies. The state's relations with organized labor are discussed in greater detail in a subsequent chapter, so only the broad outline of official labor policy will be mentioned here. In basic terms, as with other areas of economic life in postcolonial Lebanon, the political elite favored a system of lax regulation and minimal protections for workers. Although the state was pressured by the labor movement to enact labor legislation in 1946, its provisions were limited, with no protections against arbitrary dismissal or any guarantees of security of employment, and the state, in the form of the Ministry of Labor and Social Affairs, was given a central role in licensing and approving labor organizing. There were also no mandated mechanisms for resolving pay disputes or provisions concerning the right to strike or take any kind of collective action. At the same time, government policy was to prevent the emergence of a strong, united labor movement in order to keep the cost of labor low in Lebanon.[92] This policy was certainly aided by the flow of migrant workers from Syria and the labor of Palestinian refugees, neither of whom enjoyed any protections under Lebanese law and both of whom were systematically ignored by the official labor movement.[93]

The general absence of regulations and protections for workers domestically was complemented by the lack of restrictions on the flow of labor across Lebanon's international borders. The Lebanese state permitted the arrival of large numbers of migrant laborers, especially Syrians, whilst at the same time making little effort to prevent the increasing pace of emigration of skilled labor out of the country. Waves of mass emigration from Lebanon have occurred throughout the country's modern history, often in response to severe crises, such as the wars, civil conflicts and famines of the late-Ottoman period.[94] The links between émigré communities in the Americas, Europe, Africa and elsewhere, and Lebanon have been a central dynamic in the modern history of the country, not least because of the crucial flows of remittances from those communities, which have

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[92] See Benjamin T Hourani, "Unionism in the Lebanese Labor Law of 1946: A Case Study Approach." (MA Thesis, American University of Beirut, 1959).
[93] The experience of Syrian migrant workers in Lebanon is explored in Chalcraft, *The Invisible Cage*.
[94] See Akram Fouad Khater, *Inventing Home: Emigration, Gender, and the Middle Class in Lebanon, 1870-1920* (Berkeley: University of California Press, 2001).

often provided an important component of national income. In the postcolonial period waves of emigration, particularly to the Gulf states, effectively acted as a kind of social 'safety valve', offering the promise of economic security and prosperity to Lebanese youth who were increasingly disillusioned by the poor quality of public education in Lebanon, and by the lack of employment opportunities at home.[95] The scale of labor migration out of Lebanon had become substantial by the early 1970s, with an estimated 150,000 Lebanese working in the Gulf countries alone, primarily as engineers, technicians, managers and teachers.[96] In addition to migration to the Gulf, thousands of doctors, engineers, technicians and scientists were emigrating to the West, and one study claimed that two-thirds of engineers and one-third of the doctors trained in Lebanon in the 1960s had emigrated to the Americas by the 1970s.[97] By 1974, unemployment in Lebanon had reached, by some estimates, close to 20% of the labor force, and the economy was increasingly unable to absorb the thousands of students graduating from high schools and colleges each year, further accelerating the outflows of skilled labor.

The government's educational policies were a key part of this dynamic. Although some effort had been made, in response to popular pressures, during the 1960s to improve the availability of public education, by building new schools and employing more teachers, the growth of the private sector outstripped the expansion of public education, and the meager salaries offered in the public sector allowed private schools to attract and retain the best teachers. Thus, although the number of public schools grew by 23%, and the number of public school teachers tripled, between 1958 and 1969, over the same period the number of private schools grew by 41% and the number of teachers in the private sector quadrupled.[98] By 1969, nearly two-thirds of the 658,000 students in Lebanon were enrolled in private schools, whilst the public sector accounted for only around 37% of students.[99] Chronic underfunding, overcrowding in classrooms, along with overworked and underpaid teachers in public schools, left students poorly situated to score well in the Lebanese Baccalaureate, the official national qualification that determined access to university places, a reality which left wealthier students, whose families could afford private schooling for their children, with a much greater likelihood of access to higher education and better economic prospects. Successive Lebanese governments deprioritized educational funding, and allowed the private sector to educate the majority of Lebanese students, a policy which tended to exacerbate deep levels of inequality whilst keeping literacy levels relatively low. A major government labor survey in 1970 concluded that around 36% of those aged 15 and over in Lebanon had no schooling of any kind and were

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[95] U.S. Embassy Beirut to Dept. of State, "Youth in Lebanon, 1971," 4.
[96] Nasr, "Backdrop to Civil War," 11.
[97] Ibid., 11–12.
[98] U.S. Embassy Beirut to Dept. of State, "Youth in Lebanon, 1971," 2.
[99] Ibid., 3.

illiterate, whilst over 80% had received no more than primary education.[100] Such an attitude towards public education fit with the logic of a laissez-faire economic policy that sought to build and reproduce the appendage economy. The Lebanese economy simply did not need, and could not absorb, significant numbers of skilled workers, and the bulk of available employment was in unskilled, low-wage work. The underfunding of education, and the free movement of labor across Lebanon's borders should be understood, therefore, within the larger context of the kind of political economy that Lebanon's elite had put in place in the postcolonial period. The final section of this chapter examines what that political economy came to look like in more detail.

The Structure of the 'Appendage Economy'

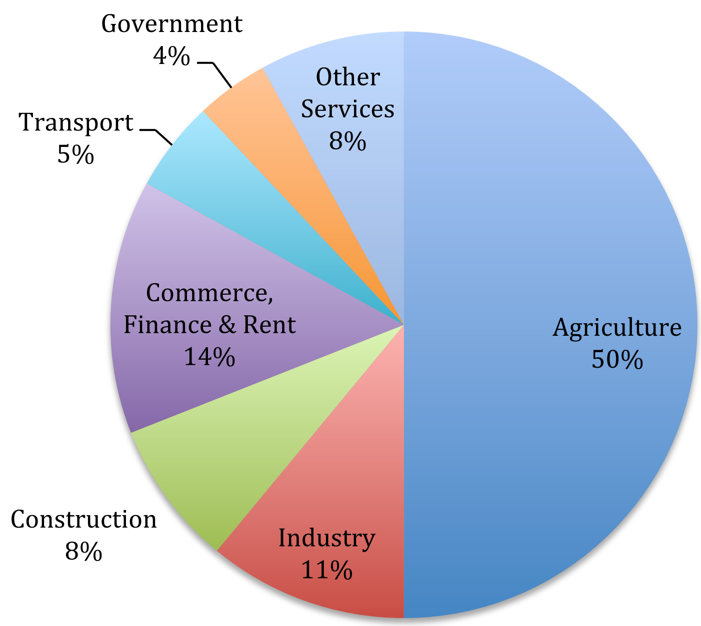
The features of the Lebanese economy that allowed Benjamin Higgins' to describe the country as an appendage of other economies were clear by the time of his writing in 1960. Firstly, a striking mismatch between the employment and income structure of the country spoke to the peculiarities of the economy (see Figures 1.7 & 1.8). The key disparity was in the relationship between agriculture and the commerce and financial services sector. The former accounted for half of all employment, but only around 15% of national income, whilst the figures for the latter were virtually reversed, employing only 14% of the workforce, but accruing 46% of national income. As Higgins and others pointed out, if one focused solely on the national income statistics, the Lebanese economy appeared to be broadly similar to the developed economies of Europe and North America in the sectoral distribution of income, and in particular the centrality of services, which accounted for roughly two-thirds of national income.

The distribution of the workforce however told a very different story, and highlighted the fact that most of the population was employed in the under-developed, productive sectors of the economy, especially agriculture. This incongruity between employment and income underlay the deep inequality that existed in the country, and a crude estimate of per capita income for each sector helps to illustrate this; whereas annual per capita income in 1957 in the agricultural sector was estimated as being around US$350, in the finance and commercial sector is estimated to be more than ten times greater, at around US$3,660.[101] Obviously this data doesn't take into account wide disparities of wealth within these sectors, and it is unlikely that small retailers, for example, had per capita incomes at

[100] Gaspard, *A Political Economy of Lebanon, 1948-2002*, 77.
[101] These figures should be treated with a high degree of caution and are illustrative of trends and relative magnitudes only. Several different measures of Lebanese national income exist, and there are few reliable estimates of the size of the working population. I have relied on national income data compiled by A.Y. Badre, an economist at the American University of Beirut whose data is cited in the Higgins Report, and employment data contained in the US Embassy's Annual Economic Report for 1957. See

anything like this level. Nevertheless, the figures give some broad indication of how wealth was being channeled in the Lebanese economy at this time, and reveal the bifurcated economic structure of the country; in a sense the Lebanese economy was an agricultural economy, that also possessed a small manufacturing sector, onto which a trading and financial sector had been grafted, one which was largely independent of its 'host'.[102]

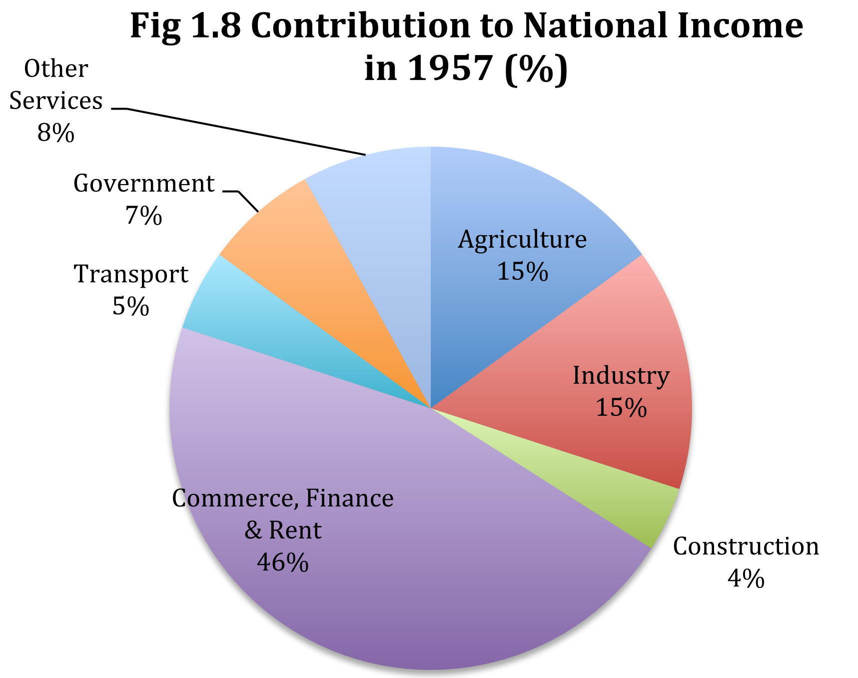
Fig. 1.7 Share of Total Employment in 1957 (%)



Source: U.S. Embassy Beirut to Dept. of State, "The Higgins Report on Lebanese Fiscal Policy," 2.

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[102] This description of the economy helps to capture the realities of postcolonial Lebanon, but has the disadvantage of ignoring a deeper historical interrelationship between agriculture and the trading and financial sectors. It was the rapid growth of sericulture in Mount Lebanon in the nineteenth century which created the conditions for the growth of an urban-based trading and financial sector, much as the rise of cotton and tobacco cultivation in colonial America was instrumental in the emergence of New York as a major financial center. Nevertheless, with the sharp decline of Lebanese sericulture after WWI, the agriculture and finance became rapidly disconnected from one another, leading to the bifurcated economic structure that characterized the postcolonial landscape. See, for example, Kais Firro, "Silk and Agrarian Changes in Lebanon, 1860-1914," *International Journal of Middle East Studies* 22, no. 2 (1990): 151–69; Leila Tarazi Fawaz, *Merchants and Migrants in Nineteenth-Century Beirut* (Cambridge, Mass.: Harvard University Press, 1983).



Source: U.S. Embassy Beirut to Dept. of State, "The Higgins Report on Lebanese Fiscal Policy," 2.

A second striking feature of the economy was the persistent, increasingly severe trade deficit that flowed in part from the relative under-development of the country's productive sectors. The pattern of Lebanese trade (see Figures 1.9 and 1.10) in the two decades after 1950, when the Lebanese-Syrian Customs Union was dissolved, highlight the increasingly large role that imports were playing in the economy, especially when the figures are compared with the growth of the overall economy. By value, imports grew from around 30% of Net National Product (NNP) in 1950, to a peak of 64% in the mid-1960s, before declining by the end of that decade to around 50% of NNP. Conversely, exports never exceeded 15% of NNP, even after the strong export growth that took place from the mid-1960s onwards. Again, the overall volume of trade activity was indicative of the central importance of the trade sector to the economy as a whole, which, according to estimates compiled by the Economic Research Institute at the American University of Beirut contributed just under a third of NNP in 1957.[103] Both the composition and geography of Lebanese trade were also revealing of the role the country was playing in regional and global trade networks; the majority of imports (by value) were originating from Western Europe and the United States, and manufactured goods made up the largest single component, whilst exports were predominantly foodstuffs and primary commodities destined for other Arab states (Fig. 1.11-1.14).

[103] Mallat, *70 Years of Money Muddling in Lebanon*, 15.

These central features of the trade sector underlay one key component of the 'appendage economy' - Lebanon's role as both an entrepôt and a processor of basic goods for the broader Middle East, and increasingly for the Gulf States in particular. The scale of transit trade (goods imported into Beirut on route to other destinations, usually within the region) remained of great importance to the economy, despite some significant fluctuations (see Fig. 1.9)[104], and the government devoted significant resources from its public works budget to expanding the port area and developing warehousing and other essential functions to facilitate transit trade.[105] To further facilitate Lebanon's role as a trading intermediary Lebanese merchants developed ties with influential figures in the Gulf regimes (especially Kuwait, Saudi Arabia and Iraq) and worked to make Lebanon, and Beirut in particular, indispensable to the regional economy. The appointment of a key Lebanese advisor to the government of Kuwait helped ensure that imports needed for Kuwait's new oil-financed development program were routed through Beirut, whilst the expulsion of the Jewish community from Baghdad after 1948, traditionally a dominant component of the merchant community in Iraq, allowed Lebanese merchants to fill the resulting need for new trading intermediaries.[106]

The increasingly hegemonic position of Lebanese transportation companies and Lebanese transportation infrastructure, such as the modern international airport built at Khalde, just south of Beirut, in 1950, was instrumental to ensuring Lebanese dominance in regional trade. The Beirut-based Levant Express Transport Company dominated the overland transport routes to Iraq, for example, whilst the airfreight operations of Middle East Airlines (the Lebanese national carrier) supplied the bulk of Saudi Arabia's imports of both gold and perishable foodstuffs.[107] Lebanon's own exports worked to complement transit trade, supplying basic agricultural goods, fruits and vegetables in particular, as well as textile products, and with the partial exception of textile goods, the government repeatedly refused to impose protective tariffs in a way that might have impinged on the fortunes of Beirut's merchant class.[108]

The persistence of a negative trade balance, and its relentless growth, begged the question of how Lebanon continued to finance an ever-greater flow of imports, given that domestic export growth remained weak for much of the postwar period. The answer was the flow of 'invisible' income of various types that formed another key component of the

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[104] The civil war in 1958 inevitably curtailed sharply activity at the Port of Beirut, and led regional importers to seek alternative means for bringing Western manufactures in the region. This coincided with the development of alternative ports and transit points elsewhere in the region as part of a move to reduce reliance on Lebanese merchants and intermediaries.

[105] Profits from transit trade were estimated at 5% of NNP in 1951. Gates, *The Merchant Republic of Lebanon*, 115.

[106] U.S. Legation Beirut to Dept. of State, "Annual Economic Report - Lebanon" February 6, 1952, 883a.00, Box 5439, Central Decimal Files 1950-54, General Records of the Department of State (Record Group 59), National Archives at College Park, MD, p4-5.

[107] Ibid., 4–5.

[108] Gates, *The Merchant Republic of Lebanon*, 222–3.

appendage economy. These flows of income were of a variety of different types. Firstly, the exporting of services, particularly in relation to the transit trade discussed above, provided a significant source of income for the economy. Lebanese merchants provided a host of services that were essential to regional trade, such as warehousing, transportation (of both goods and people), insurance and financial services, and Beirut rapidly attained a hegemonic regional position for the provision of all of these in the post-World War Two period.[109]

Other services (i.e. other than business services) were also an important economic sector, and of these, tourism and private education were two of the largest components.[110] Tourism, and services to foreign visitors to Lebanon in general, became an increasingly important component of the economy, and the US Embassy economic staff estimated that by the late 1950s, at least 40% of income in the services sector was for the provision of services to foreigners. Tourism alone was contributing hundreds of millions of lira to the economy by the 1960s, and was estimated to contribute around 8 or 9% of national income.[111] The majority of these tourists were increasingly coming from the Gulf, and to a lesser, but growing, extent from Western Europe and the United States, and were contributing greater amounts to the economy.[112] A significant percentage of construction and real estate activity was geared towards catering to foreign tourists, especially the construction and upgrading of hotels, and the Lebanese government took steps to aid the tourist sector through a package of subsidies, a relaxation of foreign exchange requirements and through the legalization of gambling, which helped to attract Arab tourists in particular.[113]

In addition to the export of services and income from tourism, another defining feature of the economy was the inflow of capital from abroad, and the essential role this played in Lebanon's balance of payments and in compensating for the persistent deficit in the country's balance of trade. Such flows of capital took a number of forms, with emigrant remittances and long- and short-term capital investments being the most important. The

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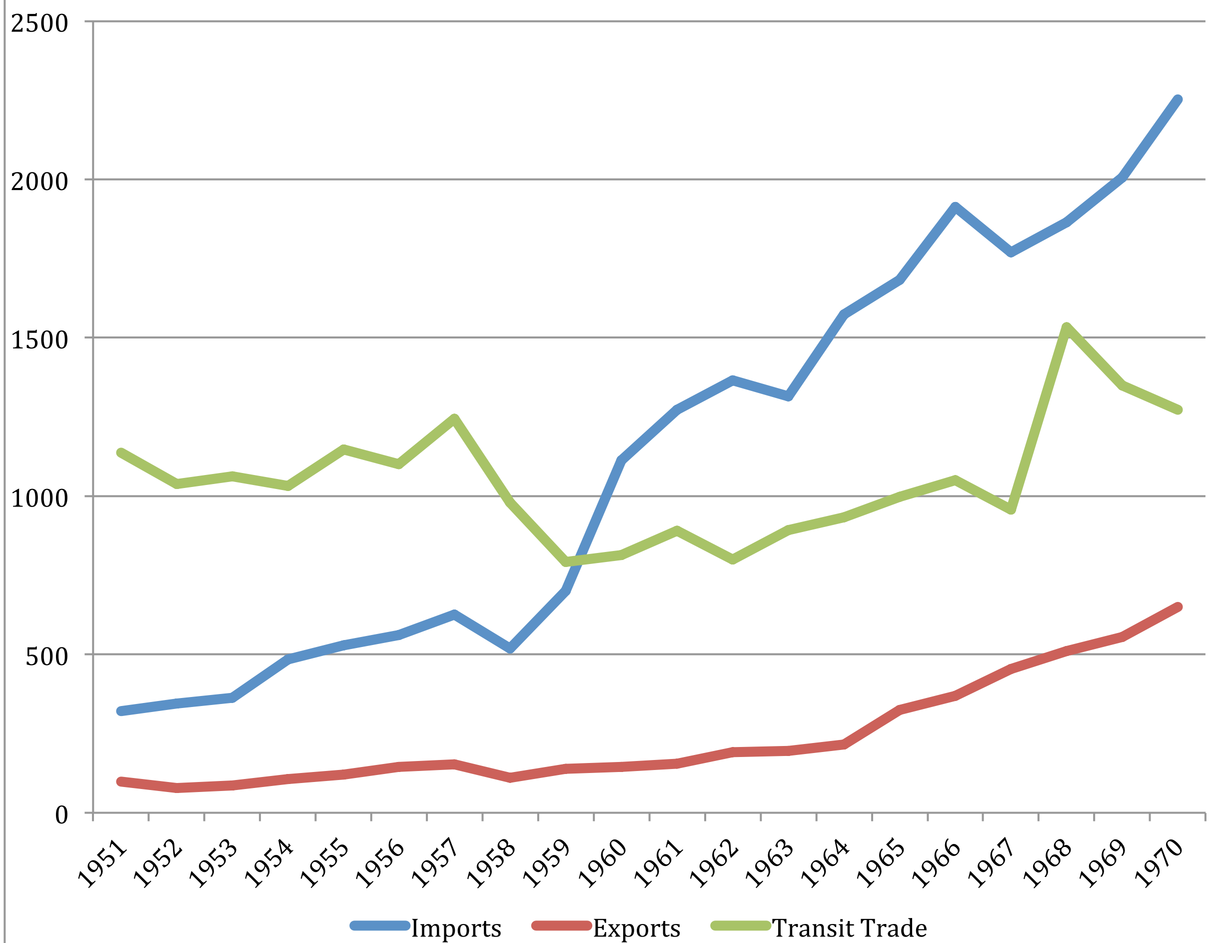
[109] Ibid., 112–116.
[110] Ibid., 118.
[111] U.S. Embassy Beirut to Dept. of State, "Lebanon: Preliminary National Income Estimates for 1969; An Embassy Forecast for 1970" April 8, 1971, E 9 LEB, Box 763, Subject-Numeric Files 1970-73, General Records of the Department of State (Record Group 59), National Archives at College Park, MD, p2.
[112] U.S. Embassy Beirut to Dept. of State, "Annual Economic Report" June 16, 1972, E 2-4 LEB, Box 763, Subject-Numeric Files 1970-73, General Records of the Department of State (Record Group 59), National Archives at College Park, MD, p5-6. The data in this report, drawn from official Lebanese government statistics, suggest that around 1 million visitors entered Lebanon in 1971, of whom around 619,000 were Arabs, and around 310,000 were Westerners. The tourism figures excluded Syrians who were predominantly arriving as temporary workers, especially in construction and services, and the number of Syrian entries probably approached the total of visitors from all other destinations combined, reaching around 900,000 in 1970. If most of these Syrian arrivals were temporary workers, as seems probable, the scale of the migration highlights how dependent the Lebanese economy, or key sectors of it, was on Syrian labor. For arrivals figures see Mallat, *70 Years of Money Muddling in Lebanon*, 45.
[113] Gates, *The Merchant Republic of Lebanon*, 117.

flow of remittances from Lebanese workers employed overseas was a vital source of income not just for the economy as a whole, but also for many Lebanese families who often relied on the additional revenue provided by a family member working abroad.[114] In balance of payments terms, the flow of remittances was more important in the first decade and a half after independence, and then declined in relative importance as other forms of capital movement became more important, and as the outflow of remittances from foreign workers in Lebanon, especially Syrians, began to grow rapidly in the 1960s (see Fig. 1.15).

By the 1960s, remittances were becoming dwarfed by the increasingly large amounts of capital flowing into Beirut banks, attracted by a lack of any kind of banking regulation and by Lebanon's stringent banking secrecy laws. This money was generally regarded as being 'hot capital', short-term flows seeking profitable outlets, and tended to originate either from neighboring countries where economic conditions were less favorable, or from the growing oil-exporting economies of the Persian Gulf. Such flows of capital are very difficult to track with any degree of accuracy, often because (especially in the late-50s and early-60s) much of it comprised so-called 'flight capital', or money that was being moved to the banking safe haven of Beirut to escape nationalization and other regulatory measures in countries such as Egypt, Syria and Iraq. The balance of capital movements in Lebanon's current account give some sense of the trends and rough magnitudes of the sums involved (see Fig. 1.16), whilst the spectacular growth in bank deposits offers another, also somewhat crude, way to measure the same phenomenon (see Fig. 1.17).

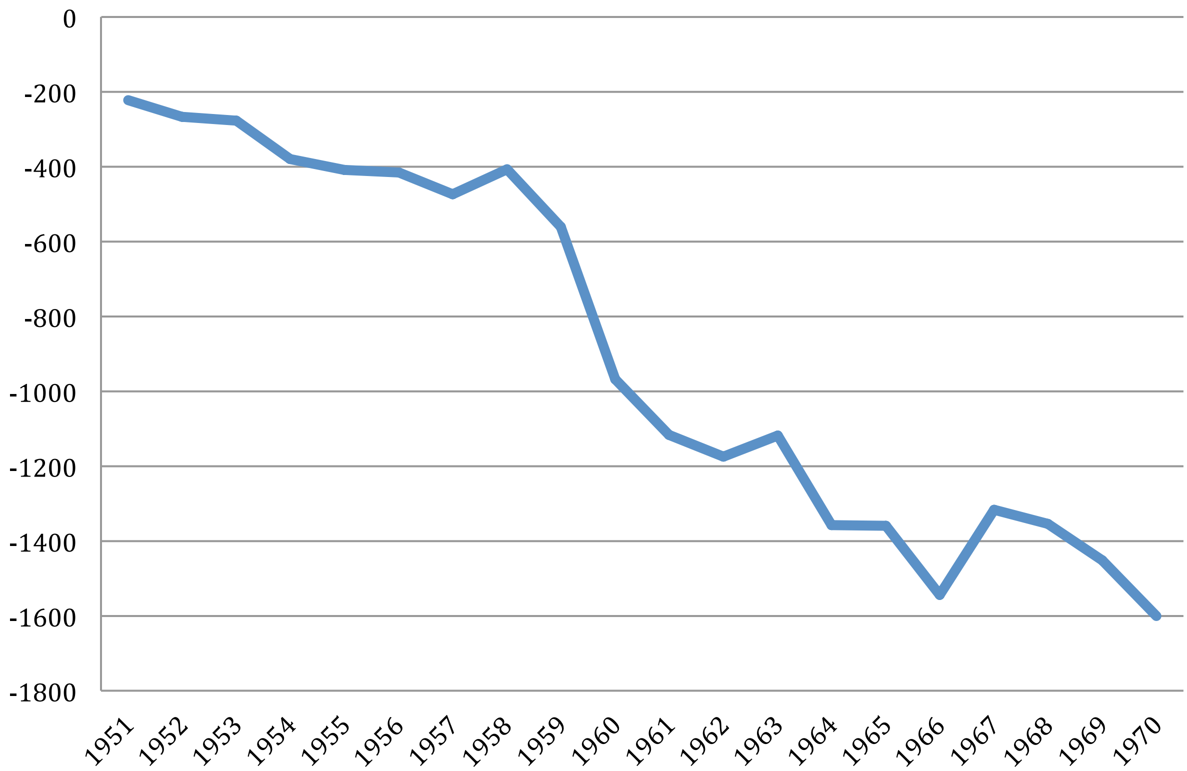
[114] The socioeconomic survey of Beirut households conducted in 1954 by Professor Charles Churchill suggested that 1 in 40 Beirut households relied on income from overseas, but the figure it likely to have been much higher in areas outside the capital, where economic conditions were much more depressed and opportunities for work far fewer. See Charles W Churchill, *The City of Beirut: A Socio-Economic Survey* (Beirut: Dar El-Kitab, 1954).

Fig. 1.9 Lebanese Imports, Exports & Transit Trade (in millions of LL)



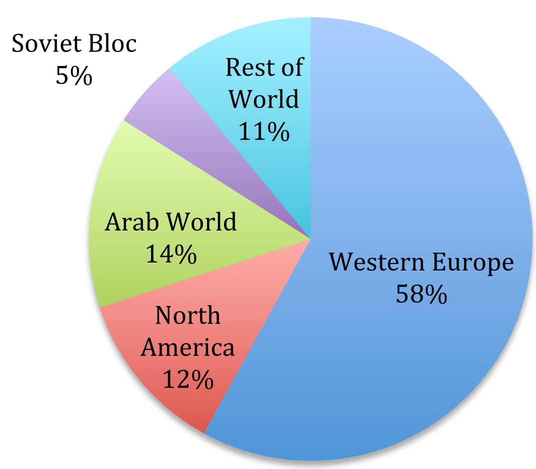
Source: Ibid., 38–9 & 43. Prior to 1950, Syria and Lebanon were united in a customs union established by the French colonial government and available trade data for this period are for the two countries' combined imports and exports, and hence the pre- and post-1950 trade statistics are not strictly comparable (though within the customs union, Lebanon probably accounted for a disproportionately large share of imports because of its higher national income). For more on the breakdown of the customs union, see Chaitani, *Post-Colonial Syria and Lebanon*.

Fig. 1.10 Trade Balance (in millions LL)



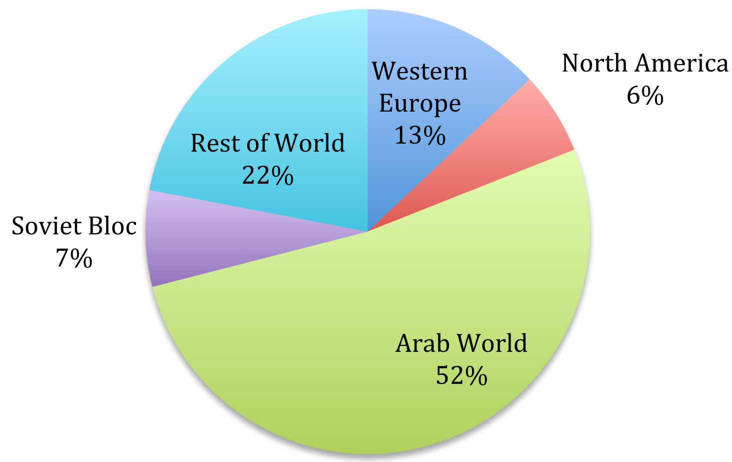
Source: Ibid. p39

Fig. 1.11 Geographic Distribution of Imports in 1960 (%)



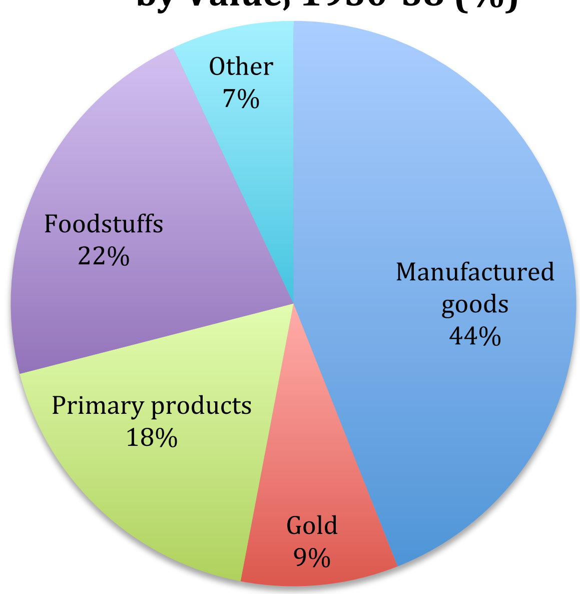
Source: Ibid., 41.

Fig. 1.12 Geographic Distribution of Exports in 1960 (%)



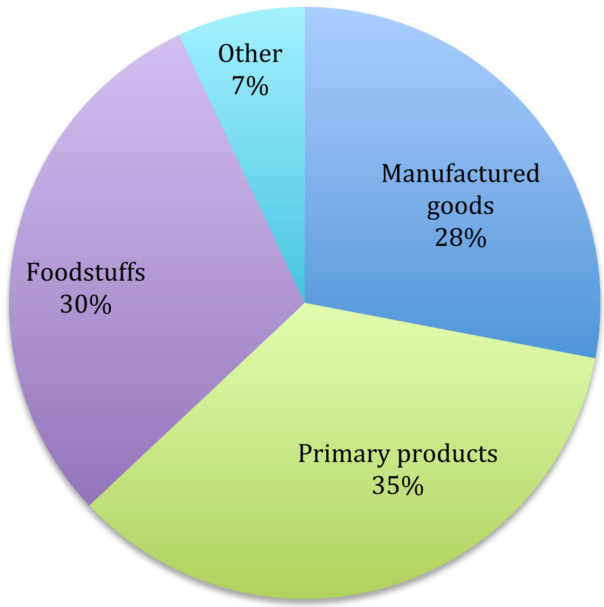
Source: Ibid., 41.

Fig. 1.13 Commodity Composition of Lebanese Imports by Value, 1950-58 (%)



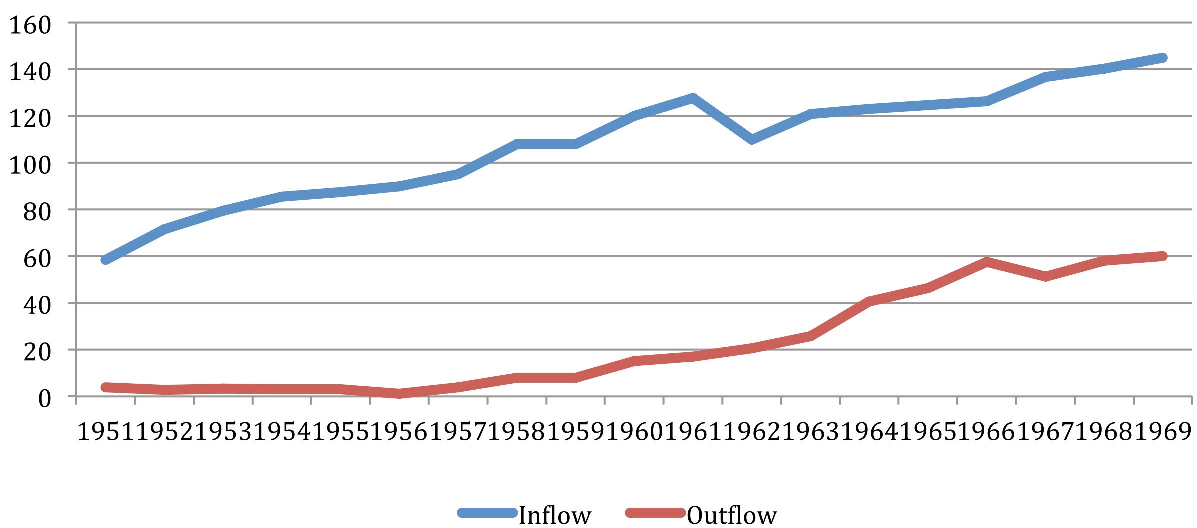
Source: Gates, *The Merchant Republic of Lebanon*, 115.

Fig. 1.14 Commodity Composition of Lebanese Exports by Value, 1950-58 (%)



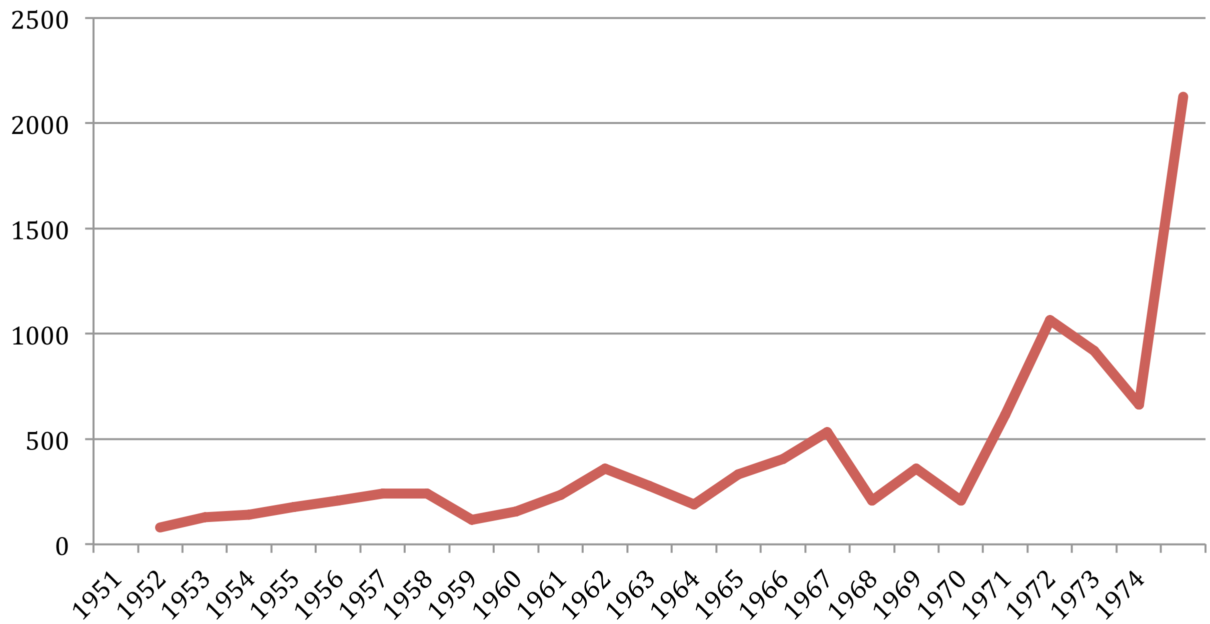
Source: *ibid.*

Fig. 1.15 Flow of Remittances to/from Lebanon 1951-69 (millions LL)



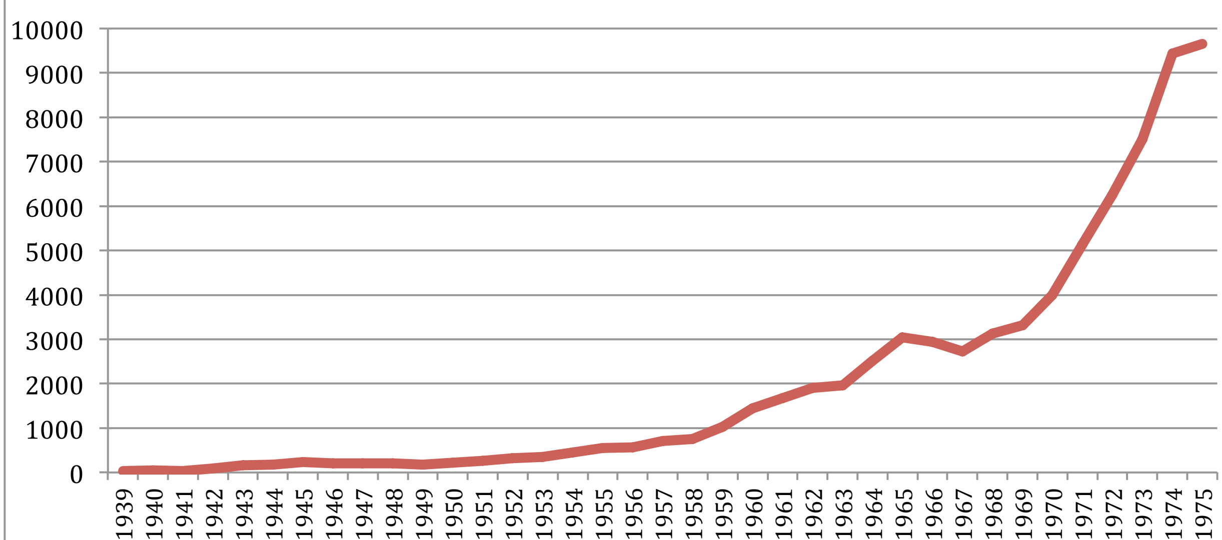
Source: Mallat, *The Economic Challenge*, 73-6. Figures for 1958-9 are my extrapolations.

Fig. 1.16 Balance of Capital Movements 1951-74 (millions LL)

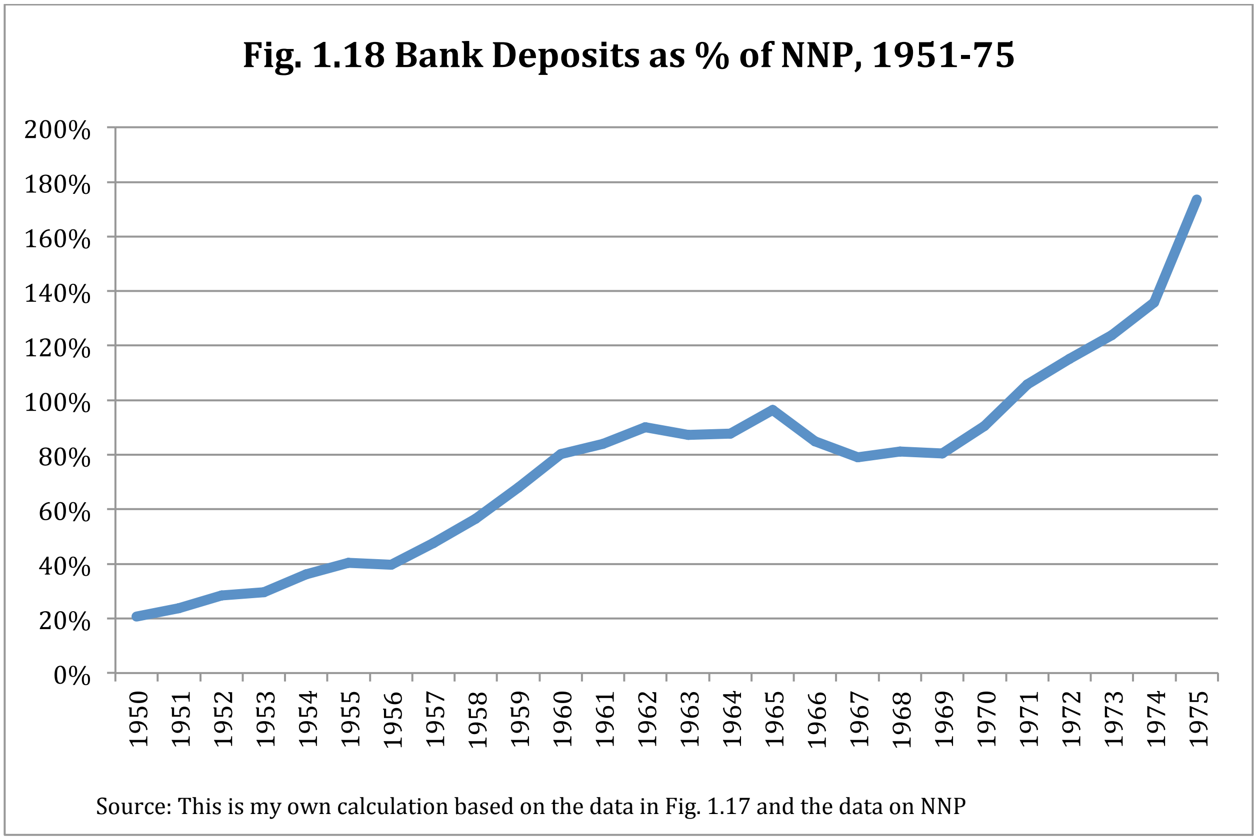


Source: *ibid.*

Fig. 1.17 Total Bank Deposits 1939-75 (millions LL)



Source: *ibid*. 209-11, 218-220 & 223



It is important to emphasize that the growth of bank deposits does not give a direct window into the process of capital movements, and there is no claim being made here that a growth in bank deposits is necessarily or straightforwardly connected to inflows of capital from abroad, but rather that this growth could be indicative of such movements. Clearly there is a range of possible reasons why bank deposits in a given country may rise suddenly over relatively short periods of time. Nevertheless, when combined with other available information, there are grounds for suggesting a connection between the rise in deposits and inflows of capital from abroad. Bank deposits consistently grew faster than the economy as a whole, averaging a 17% annual growth rate between 1950 and 1975, compared with an average annual growth in NNP of around 7%. By the 1970s, total bank deposits had exceeded the size of the economy as a whole (see Fig. 1.18), a trend which accelerated after the onset of the civil war in 1975.[115] Additionally, the spikes in bank

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[115] By 1978 total bank deposits had risen, in nominal terms, to over LL15 billion, and grew still further as various forms of capital flooded into the country to support the various factions in the war, and remittances from abroad to support families trapped by the conflict. These funds were increasingly held in foreign currency accounts (especially dollars) as rampant inflation eroded the value of money held in the national currency. At the same time, wartime conditions had

deposits coincided with key regional events, such as nationalization measures in neighboring countries, or a rise in oil revenues. Bank deposits saw a dramatic rise between 1958 and 1965, roughly quadrupling in this seven-year period; this coincided with a series of nationalization measures in both Egypt and Syria, and it was widely reported that flight capital was pouring into Lebanon in response.[116] Similarly, the dramatic deposit growth of the early 1970s coincided with the post-1973 'Oil Shock', when OPEC's decision to sharply increase oil prices led to a phenomenal growth in revenues for OPEC member states.[117] The Gulf oil producers had been banking some of their oil rents in Lebanon for two decades by this point, and Beirut continued to benefit as the flows of petrodollars grew exponentially.

These, then, were the core features of the postcolonial economy of Lebanon. Firstly, a distribution of economic activity, reflected in employment and income trends, that was heavily skewed towards services, and in particular financial and commercial services in support of the country's role as a trade intermediary for the region as a whole. Beirut merchants engaged in lucrative 'triangular trading' endeavors, supplying Western manufactures to Middle Eastern states with limited, under-developed trading infrastructures, while Beirut bankers provided the means to finance such activity, especially the essential, and often scarce, foreign currency (especially US dollars) needed to pay for Western goods. The revenue and profits generated by such activity was substantial, and grew inexorably year-on-year, constantly dwarfing the activity in all other sectors of the economy and leading to the characterization of the economy, by Professor Higgins and others, as a 'dual economy', an externally-oriented services appendage grafted on to a under-developed productive economy.

Second, a persistent, mushrooming trade deficit spoke to the role the country was playing as a tourist destination and as a space for conspicuous consumption by both the domestic and regional elite. The highly unequal distribution of income within the country, and the nature of the imports (predominantly manufactured and luxury goods) tie the trade deficit to specific groups and economic sectors, in contrast to any notions that the Lebanese in general were living a highly consumerist lifestyle. Tourism, for example, and especially luxury tourism, became a major source of income for the country as increasingly large numbers of wealthy Arab tourists, especially from the Gulf states, flocked to Lebanon to vacation during the summer, and the tourist sector provided an important source of

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destroyed much of the productive economy and disrupted the services sector on which the country had previously depended.

[116] The US Embassy staff passed along unofficial reports that US$100 million had entered Lebanon during the summer of 1961, and in September of the same year, LL2 million (around $600,000) per day was flowing in to Lebanese banks. This resulted in record levels of bank deposits in 1961 which reached a level equal to the estimated per capita income for every man, woman and child in the country. See U.S. Embassy Beirut to Dept. of State, "Banks - Record Deposit Level Reached" September 26, 1961, 883a.10, Box 2796, Central Decimal Files 1960-63, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.

[117] See for example, Christopher C. Joyner, "The Petrodollar Phenomenon and Changing International Economic Relations," *World Affairs* 138, no. 2 (1975): 152–76.

domestic demand for imports, especially as a hotel-building boom got under way in the 1950s. Finally, the inflows of capital that kept the country solvent spoke to the country's role as the primary financial center for the region. A lack of banking regulation, tight secrecy laws, and a deregulated money market made Beirut a highly attractive destination for both petrodollars and flight capital fleeing the *dirigiste* measures that were being imposed in many neighboring states, as well as other funds seeking security and anonymity. As bank balances swelled, Beirut banks could provide a steady flow of cheap, short-term credit to finance trade and real estate speculation, further cementing the dominance of financial and trading activity in the country. In all of this, as the previous section argued, the state played a central role in bringing into being and facilitating these economic arrangements, and the postcolonial economic landscape was something that was consciously produced, rather than simply emerging out of some natural state of affairs.

Conclusion

This chapter has attempted to provide an overview of the political economy of postcolonial Lebanon, as it developed in the years after the end of the Second World War. The first part of this chapter briefly outlined the legacy of the war itself, and how it enriched the Lebanese elite, both industrialists as well as merchants and financiers, even as wartime conditions led to hoarding, hyperinflation and widespread shortages of basic goods. Following the war's end, the Lebanese elite were successful in establishing what I've called, borrowing a term used by fiscal expert Benjamin Higgins, an 'appendage economy', where the Lebanese economy effectively functioned as a trading and financial services appendage of other economies, particularly those of the Gulf oil states. The middle sections of this chapter described the composition of the dominant sections of the Lebanon elite and the ways in which they influenced state policy to ensure that the appendage economy would be nurtured and sustained above all other considerations. This section provided an overview of the key personalities who comprised the dominant faction of the Lebanese elite, namely the commercial bourgeoisie, whose most powerful representatives were clustered in the upper-echelons of the regime of President Beshara al-Khoury, as well as those French interests that played a central role in shaping the postcolonial economic landscape in Lebanon, even as their power and influence was waning.

In the subsequent section I demonstrated how the state, dominated by the commercial elite, took a variety of policy measures that boosted the trade and financial services sectors of the economy even as they hampered, often severely, the growth of the productive sectors of the economy, especially agriculture and industry, from which the majority of the population derived their livelihoods. Finally, this chapter examined the nature of the appendage economy and its salient features, in particular the imbalance between productive and intermediary economic activities, Lebanon's chronic trade deficit, and the heavy reliance of the economy on various forms of invisible earnings, especially short-term capital movements. In short, this chapter has tried to explain how the commercial bourgeoisie came to shape postcolonial Lebanon in its own interests, and what that meant for the economy, and for the country. In subsequent chapters I will explore what the

institution of this economic paradigm meant for the social development of the country, how resistance to this paradigm, from the radical left and within the labor movement, was, for a time at least, overcome, and finally how a systemic crisis in the mid-1960s led to changes which, whilst reinforcing aspects of the economic system, paved the way for the violent conflict of 1975-90.

Chapter Two: Development in Postcolonial Lebanon

"If, as…Mr Abd El Aal said, 'Lebanon could become the gift of the Litani just as Egypt is the gift of the Nile', we need first a state and a policy as good as this Godly gift."

L'Orient, *Editorial, December 1st, 1955*

Introduction

The Litani River hydroelectric project was, for some, intended to be the answer to all of Lebanon's problems. It was to provide cheap, abundant electrical energy whilst greatly extending the area of irrigated agricultural land in the Biqa' Valley and along the Mediterranean coast between Beirut and Sidon. The cheap energy would allow industry to flourish, thus rebalancing the economy away from its dangerous reliance on invisible income and the service sector, and instead allow the country's productive sectors to take a lead. Similarly, a significant extension of irrigation would allow for the development of more intensive, more efficient agriculture thus raising rural incomes as well as cash crop exports, in turn improving Lebanon's ever-worsening trade balance. The tourism sector would also benefit as the Qaraoun Lake, formed by the main hydroelectric dam, would provide a scenic retreat for vacationers, and hotels and guesthouses would spring up along its shores. In short, the Litani Project was going to be something of a panacea, a palliative for myriad ills and the beginning of a new future for Lebanon.[1]

The reality was, perhaps unsurprisingly, somewhat different and fell far short of these lofty ambitions. The plans to use the Litani waters for irrigation purposes never really got off the ground, and irrigation needs were consistently sidelined in favor of utilizing the water for electricity generation. At the same time, electricity generation fell far short of what was possible because of competition from existing private energy producers and the high costs of the Litani project, which left its energy product too expensive to sell unsubsidized. Thus the long crisis of Lebanese agriculture continued unabated, and whilst the completion of the Litani project coincided with an explosion in light industrial exports,[2] the two developments were wholly unconnected and the era of cheap, abundant electrical power that would promote an industrial revolution never arrived.

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[1] See for example, the press commentaries recorded in F. Dorsey Stephens, Letter No. 147, December 2, 1955, Administration Vol. I, Litani Power and Irrigation Project, Lebanon - Loan 0129, P005324, Archives of the World Bank Group, Washington, DC. See also, Ibrahim Abd al Al, *Le Litani: etude hydrologique* (Beyrouth: Impr. catholique, 1948).
[2] See Chapter Three

Furthermore, as this chapter will show, the project was plagued with problems, scandals and setbacks from the very beginning. The awarding of contracts by the semi-autonomous state agency responsible for the project, the Office National du Litani (ONL), for consultant engineers, equipment and construction work was frequently the subject of controversy. Concern about corrupt practices was fueled by the legislative act which created the ONL and granted it extensive powers to hire and fire contractors directly, without the need to follow a competitive bidding process, and with the most minimal level of oversight possible. The French consortium which won the lucrative contract to provide engineering supervision and to draw up detailed plans for the project, the Groupe Francais du Litani (GFL), subsequently proved to be a very poor choice indeed. Staff from the International Bank for Reconstruction and Development (IBRD), which funded a major portion of the project, soon became aware of how little supervision the GFL was actually providing, and when a major engineering failure emerged in a crucial phase of construction, the ONL was forced to fire the GFL and appoint a new group of consultants. Further scandals and setbacks proliferated and the project's costs spiraled even as its completion date receded further into the future.

This chapter aims to situate the Litani project within the broader analytical approach of the dissertation as a whole, by examining how a scheme that was ostensibly about national development, economic growth and greater and more equal levels of prosperity, became, in truth, to be about rent-seeking, corruption and the triumph of free market economics over planning and statism. The chapter examines the legacy of postcolonial economic development in Lebanon, noting the distinction between projects which supported the political economy of Lebanon as it was agreed upon by the Lebanese ruling class, and which were therefore completed relatively quickly and easily (though with levels of graft and rent-seeking commensurate with a virtually unregulated economic arena), and those, like the Litani project, which potentially threatened that political economy, and which were completed fitfully and only after immense delays, setbacks and problems.

Ultimately, the argument that runs through and structures this chapter can be broken down as follows: i) once the economic trajectory of postcolonial Lebanon had been set by the early-1950s, the state was anxious to avoid initiating any policies or projects that would alter or interfere with that trajectory, and government infrastructure spending was restricted to projects that complemented Lebanon's political economy; ii) as a result, the Litani scheme was never intended to serve as a project for 'national development' in a manner similar to the role the Aswan Dam project was intended to serve for Egypt under Nasser; iii) instead, the Litani project was really more about creating another vehicle for facilitating the involvement of foreign capital in Lebanon and for enabling the rent-seeking activities of local capital.

Development in Lebanon

Like all former colonies, Lebanon emerged from French rule with a distorted and underdeveloped economy. In line with the dictates of colonial economics, the French had

limited the expansion of industry whilst doing little to radically alter the underdeveloped nature of local agriculture. Instead, an economy based on trade and services, with Beirut as its hypertrophied center, continued to take shape during the years of the French mandate. Beirut served as the entry point for Western goods to Lebanon and the broader Arab hinterland, connected by new roads and rail links to key cities in the Syrian interior and further afield. With the gradual collapse of sericulture after World War One, in the face of competition from East Asia and from newly developed synthetic fabrics, Lebanon lacked significant material exports and its bourgeoisie prospered from transit trade activities and business services instead.[3]

This picture was complicated slightly following the onset of the Great Depression when an emerging labor movement pushed for greater French investment in jobs and infrastructure to combat unemployment. Ongoing economic and political crises in France, coupled with a desire to avoid costly military investments in the colonies to maintain order, led the French High Commissariat to approve limited packages of economic aid to boost the local economy and create jobs.[4] These limited measures did little to alter the overall tenor of the prevailing colonial political economy however, and it was only with the onset of the Second World War that a radical shift took place.

As Elizabeth Thompson has cogently pointed out, the highly vulnerable nature of French rule in the Levant, following the fall of France in spring of 1940, created a powerful political opening for popular forces in Lebanon to push for a reworking of the political and economic order.[5] Somewhat improved welfare services and a limited acceptance of the notion that the colonial state had an obligation to provide for the needs of the populace, was combined with an acquiescence to the clamor for wage increases from an increasingly vocal and militant labor movement, spurred on in turn by the spiraling cost of living. These developments merged with broader changes wrought by the war economy which led, albeit temporarily as it transpired, to the formation of a semi-autarkic system of expanded industrial production for the domestic market. The textile sector in particular was a major winner from this process, and the owners of the largest mills, the Asseily and Arida families prospered greatly.[6]

This order did not, however, survive much beyond the end of the war and the lifting of restrictions on shipping and trade. As discussed in more detail in Chapter One, the war's end precipitated a political struggle to shape the course of postcolonial Lebanon's future,

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[3] Buheiry, *Beirut's Role in the Political Economy of the French Mandate, 1919-39*; Roger Owen, "The Political Economy of Grand Liban, 1920-70," in *Essays on the Crisis in Lebanon* (London: Ithaca Press, 1976); Gates, *The Merchant Republic of Lebanon*, 17–34.
[4] Thompson, *Colonial Citizens*, chap. 9; Jacques Couland, *Le Mouvement Syndical Au Liban, 1919-1946: Son Evolution Pendant Le Mandat Francais de L'occupation a L'evacuation et Au Code Du Travail* (Paris: Editions sociales, 1970).
[5] Thompson, "The Climax and Crisis of the Colonial Welfare State in Syria and Lebanon during World War II."
[6] See Chapter One

one which was ultimately won by those bourgeois forces intent on building a liberal, free-market system based on the largely unregulated currency trading and banking sectors and on a conservative monetary and fiscal regime. One tangible outcome of this from the point of view of national development was that the jump in public spending on social welfare witnessed by neighboring countries following independence, was much more muted and short-lived in the Lebanese case. Levels of public funding for schools, hospitals, clinics, sanitation and other welfare services remained anemic, and projects to connect rural villages to reliable national electricity and water networks proceeded at a glacial pace.[7]

Further evidence of the underdevelopment of Lebanon was provided by a series of surveys and investigations into the conditions of Lebanese society conducted during the postcolonial period. Of these, three were particularly important. In the early 1950s, a major study of social conditions in the city of Beirut was conducted by Professor Charles Churchill and the Economic Research Institute of the American University of Beirut, in conjunction with the Ministries of Social Affairs and National Economy.[8] This study of nearly 2000 households in the city, provided, for the first time, a comprehensive assessment of the living and working conditions of the residents of the capital, including information on their sources of income, household expenditures and spending patterns, as well as their ability to access education, healthcare and other services. In the early 1960s, a major development survey was commissioned by the new government of President Fuad Chehab, this time covering the country as a whole. This survey was carried out by researchers from the French economic research institute, the *Centre International de Formation et de Recherches en Vue de Developpement Harmonise* (IRFED), headed by Father Louis-Joseph Lebret, and its results were published in 1963.[9] Finally, a third project in 1970 by the Planning Ministry's Directorate of Statistics undertook a massive survey of the Lebanese labor force which collected data from some 30,000 Lebanese households, and which remains the largest ever workforce survey conducted in Lebanon.[10]

In combination, these three surveys provide a wealth of insights into social development into Lebanon, and in particular into the impact that laissez-faire economic policies were having on the population as a whole. All three surveys revealed deep levels of inequality, with major differences in household income between social classes and across the rural-urban divide. The Churchill study of Beirut found that the top 35% of households earned 79% of all income, with the top 4% alone earning 36%, whilst the IRFED study of

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[7] Many rural communities remained without reliable water and electricity supplies well into the 1960s when renewed efforts were made by the Chehab government to improve rural conditions. See Traboulsi, *A History of Modern Lebanon*, chap. 9.
[8] Churchill, *The City of Beirut*.
[9] Institut de recherche et de formation en vue du développement harmonisé, *Le Liban Face a Son Développement: Présentation Condensée de La Première Étude IRFED 1960-1961.* (Beyrouth: Imprimerie catholique, 1963).
[10] Direction centrale de la statistique, *L'enquête par sondage sur la population active au Liban, novembre 1970.* (Beyrouth: Ministère du plan, Direction centrale de la statistique, 1972).

Lebanon as a whole found similar levels of inequality, with 49% of households classified as either 'poor' or 'destitute' by the French research team, earning no more than LL 2,500 per year (approximately $780 a year, or $65 per month).[11] In rural areas IRFED determined that the proportion of households earning below LL 2,500 per year was higher, at around 56%.[12] The Churchill study also found that a high percentage of households (45%) were in debt, with 68% of indebted households reporting the cause of the debts to be insufficient income or the need to meet healthcare costs, while 20% of indebted households had debts of over LL3000, or more than 250% of average annual per capita income.[13] Results from the Churchill study also suggested that most households were spending very little beyond basic necessities, with 55% and 66% of households reporting having spent nothing on clothing or recreation respectively in the month prior to the survey.[14]

The studies also found healthcare and educational service provision to be inadequate, especially outside of the capital Beirut. The IRFED study found the level of healthcare provision to be "low throughout the country; personnel are insufficient; midwifes and infirmaries missing; social services are non-existent; hospitals, maternity services and dispensaries are infrequent and sometimes rare."[15] The French team rated healthcare in the various regions of Lebanon to be either 'under-developed' or 'significantly under-developed', except for Beirut, and some of the villages and neighborhoods immediately adjacent to it, where healthcare services were judged to have reached minimum levels of development.[16] Educational services were also poor, and levels of educational achievement low. Data from the 1970 labor survey, referenced in Chapter One, highlighted the apparently low level of educational attainment achieved by the majority of Lebanon's residents in the decades following independence, in contrast to the commonly held notion that Lebanon possessed a relatively well-educated population. The survey of 30,000 households found that in 1970 over 80% of the population above the age of 15 had only a primary level of education or below, and 36% of the same group had no schooling at all and were classified as illiterate. Toufic Gaspard concludes that these results debunk the myth of

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[11] Churchill, *The City of Beirut*, 23–24; Institut de recherche et de formation en vue du développement harmonisé, *Le Liban Face a Son Développement: Présentation Condensée de La Première Étude IRFED 1960-1961.*, 216. The IRFED team determined that the mean household income was around LL 5,000, which only 18% of Lebanese households achieved. The Churchill study meanwhile claimed, albeit without a clear rationale, that LL 5,000 per year per household was the minimum needed to meet basic needs and to ensure a satisfactory quality of life in Lebanon.

[12] Institut de recherche et de formation en vue du développement harmonisé, *Le Liban Face a Son Développement: Présentation Condensée de La Première Étude IRFED 1960-1961.*, 216.

[13] Churchill, *The City of Beirut*, 26–7.

[14] Ibid., 62–3. The rate of forced migration from the deeply impoverished south was reportedly even higher, at 65% of the population.

[15] Institut de recherche et de formation en vue du développement harmonisé, *Le Liban Face a Son Développement: Présentation Condensée de La Première Étude IRFED 1960-1961.*, 149.

[16] Ibid., 191–206. The IRFED team developed their own rating system for determining levels of development in all aspects of Lebanese life, which consisted of a point scale ranging from 0-4, where 0 was 'non-development or significant under-development' ,4 was 'superior development', and 2 marked the 'transition between under-development and development'.

Lebanese educational attainment, though his argument ignores the high rate of emigration from Lebanon of the most educated strata of the workforce, a rate which had reached over 10,000 a year by the early 1970s.[17] As a result the data should be treated with some caution as only the resident Lebanese population were surveyed. Nevertheless, there is an argument to be made that educational achievement in Lebanon was much less impressive than was commonly thought, and that the education system was either inaccessible or of insufficient quality to educate much of the population.

The divide between urban and rural life was considerable, as the income figures highlighted above suggest. The poverty of rural life was exacerbated by the extent to which healthcare and educational services were concentrated in the capital and in the Mount Lebanon region, adjacent to Beirut. The Beirut and Mount Lebanon regions, where roughly 60% of the population resided by the early 1970s, had 82% of all doctors and 77% of all hospital beds, whilst south Lebanon and the Biqa' Valley region, where 22% of the total population resided, had 8% of all doctors and 10.5% of hospital beds. At the same time, the Beirut and Mount Lebanon regions averaged 364 students per 1000 people, whilst the south and the Biqa' Valley regions averaged less than half that number, just 174 students per 1000 people.[18] The 1970 labor survey also highlighted how the miserable conditions in rural Lebanon were driving the population off the land, and data from the survey suggested that during the 1960s roughly 27% of the rural population had migrated to urban areas, mainly Beirut, or overseas, a proportion which rose to 40% by 1975, partially as a result of the growing instability in the south caused by the conflict between Palestinian guerrillas and Israeli military forces.[19]

The laissez-faire economic paradigm was thus clearly not working in the interests of most Lebanese, and the provision of basic services remained wholly inadequate, especially in rural areas. High levels of social under-development, and the lack of adequate healthcare and educational services, were matched by the under-development of basic infrastructure, including in the energy sector, as the next section discusses.

Underdevelopment in Lebanon's Energy Sector

The early years of the Lebanese Republic were marked by protests and popular discontent on a variety of issues, particularly regarding the high cost of living. One source of popular anger was the high price of electricity provided by Electricite de Beirut (EdB), a private French concessionary company backed by French, Belgian and Swiss capital, which

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[17] Gaspard, *A Political Economy of Lebanon, 1948-2002*, 77.
[18] Nasr, "Backdrop to Civil War," 12.
[19] Ibid., 10.

had a record of charging high prices for electricity whilst underinvesting in infrastructure and failing to provide a reliable energy supply.[20] EdB was the largest utility company in the country and was responsible for generating around 57% of Lebanon's electricity on the eve of independence, but was increasingly resented for the high profits it was reaping, despite the poor service it provided.[21] However EdB, like other concessionary companies, was not simply another company operating in Lebanon, but was a key node in the French network that competed for economic hegemony in the Middle East generally, and Lebanon in particular. Along with other powerful French interests in the country, led until his downfall in 1951 by Rene Busson[22], the powerful director of the Banque de Syrie et du Liban (BSL), EdB was engaged in a campaign in the early years of Lebanese independence to shape the direction of Lebanese economic and development policy in such a way as to ensure that the privileged position of French companies in key sectors like energy supply was maintained.

One key moment in this campaign came in 1947. The French had become deeply concerned over the decision by the Lebanese government to invite the British firm of engineering consultants, Sir Alexander Gibb & Associates, to conduct a wide-ranging development survey of Lebanon, the first of its kind since independence. Such surveys were not simply a matter of collecting data and presenting recommendations, but were an opportunity to shape the direction of government policy and, crucially, to help determine who would benefit from those policies, including which company or group of companies would be awarded lucrative government contracts. For the French, the Gibb survey, and, later, the arrival of a US 'Point Four' technical assistance program team, were efforts to supplant, or at least challenge, French capital by the British and United States respectively.[23] What concerned EdB directors and stockholders about the Gibb survey in particular though was its recommendations for the continued development of hydroelectric power stations to meet the long-term energy needs of the country. Such a development had the potential to threaten the position of the existing French-dominated energy sector, with its reliance on thermal power plants, and as a result was something the EdB, and French interests in Lebanon generally, were keen to avoid, or at least restrict.

In March of 1948, the then-director of EdB, Georges Grandchamps, a Belgian national who was also director of the Baghdad Electric Company, approached the British resident

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[20] Gates, *The Merchant Republic of Lebanon*, 77; Bruins to Ruff, "The Reaction of Concessionary Company to the Electric Power Crisis in Lebanon" February 27, 1952, File 504.14, Box 28, Classified General Records 1936-1961, U.S. Embassy, Beirut, Lebanon, Records of the Foreign Service Posts of the Dept. of State (Record Group 84), National Archives at College Park, MD.

[21] The second largest company, the Kadisha Electric Company, which supplied the Tripoli area, was responsible for around 37% of total electricity produced. Thus the energy sector was dominated by these two companies which together supplied 94% of all electricity in the country. Gates, *The Merchant Republic of Lebanon*, 77–8.

[22] For more on Busson, and the role played by the BSL in Lebanon, see Chapter One above.

[23] Point Four was announced by President Harry Truman in his 1949 inaugural address, as a comprehensive program of non-military aid to 'developing countries' aimed at targeting Soviet influence in those countries, and which was administered by the Technical Cooperation Administration (TCA) established in 1950 within the Department of State.

minister in Beirut with the aim of floating a plan for greater British involvement in the existing French-controlled energy companies, rather than financing new electricity projects.[24] At that point British companies, especially the engineering firm Metropolitan Vickers, were involved with initial efforts to develop hydroelectric resources in Lebanon, in line with the recommendations put forward in the Gibb survey. Grandchamps told the British minister that EdB was short of capital and was desirous of bringing in new investment to enable the company to expand, whilst also expressing skepticism about the soundness of hydroelectric schemes in Lebanon.[25] A subsequent meeting a few weeks later between EdB manager Rene Castermans and the British legation's commercial secretary reinforced this approach to British capital.[26] The resident British minister Sir Houstoun-Boswell felt certain that Rene Busson, director of the BSL, was behind the approach and that it was part of a strategy of trying to limit the impact of the Gibb survey on the French position in Lebanon.

Part of the problem faced by the EdB, and French concerns generally, however, was the overall weakness of French capital in the aftermath of the Second World War, and the particulars of the struggles of the French group in Lebanon should be seen in that context. The EdB, for example, lacked the capital needed to expand, as Grandchamps made clear, as well as the capacity to obtain sterling or dollars to import new equipment, and Castermans approach to the British commercial secretary included a request for flexible financing terms for the import of British-made equipment.[27] Despite its financial limitations though, the company, like other French concessionaires, benefitted greatly from the close links it enjoyed with the administration of President Beshara al-Khoury, and this helped ensure that government policy of privileging private and foreign capital did not change in such a way as to undermine the position of EdB in the energy sector.[28]

Thus, for most of the first decade of independence, the Lebanese state had been content to allow its energy policy and its approach to development planning in the electricity sector to be shaped by the interests of EdB. This began to change in 1952, however, with a six-month consumer strike in Beirut in which residents refused to pay their bills in protest at the high rates and poor service provided by EdB.[29] The strike, which lasted until a

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[24] Houstoun-Boswell, H.M. Minister, Beirut to Foreign Office, Telegram No. 41 (March 26, 1948), "Anglo-French Cooperation in the Levant", FO 371/68497, The National Archives, UK.
[25] Ibid.
[26] Houstoun-Boswell, H.M. Minister, Beirut to Foreign Office, Telegram No. 56 (May 1, 1948), "Anglo-French Cooperation in the Levant", FO 371/68497, The National Archives, UK.
[27] Ibid. The response was a negative one and the commercial secretary told Castermans that there was little expectation that British firms would agree to extend credit when world demand was high enough that buyers ready to pay cash were plentiful.
[28] See Chapter One.
[29] Bruins to Ruff, "The Reaction of Concessionary Company to the Electric Power Crisis in Lebanon"; U.S. Embassy Beirut to Dept. of State, "Government Ends Electric Power Strike by Yielding to Boycott Committee" July 23, 1952, 883a.062, Box

settlement was reached in June, was led by a boycott committee in which both the Lebanese Kata'eb Party (LKP, also known as the 'Phalange') and the predominantly Sunni-supported Muslim National Organization (MNO) were key players, was likely driven by a combination of factors. Firstly, the poor service provided by the company was increasingly dissatisfying to both residential and business consumers in the city, and the irregular supply and often-weak current were particularly vexing for industrial enterprises. This discontent dovetailed with a desire on the part of the opposition to make capital out of the close links between the administration of President Beshara al-Khoury and the concessionary companies, including EdB. Mounting discontent with Lebanon's first president, which later the same year would lead to his overthrow, prompted opposition politicians and rivals within the Lebanese bourgeoisie, to seek effective means to undermine him. The flagrant venality of Khoury's administration was a convenient and highly effective target, and the six-month consumer strike served to increase the sense that the greed and mismanagement of the government could not continue indefinitely.[30]

The strike rapidly developed into a full-blown crisis, which the government found itself hard-pressed to decide how to deal with quickly and effectively. Whilst the immediate source of the crisis was the consumer strike, which, though directed at a private foreign company, EdB, nevertheless focused negative attention on the government for its seeming incapacity to ensure basic services were being provided to the population, it also raised larger issues. Firstly, it quickly led to questions and debates about the whole issue of the concessionary companies and their place in postcolonial Lebanon. These companies, some of whom had obtained their concessions during Ottoman times, enjoyed extensive privileges, included exemption from local taxation and from any real kind of local oversight, which made them highly profitable enterprises. Their special status in the country highlighted their colonial origins and the fundamental incongruence between their continued existence, at least in their original incarnations, and the interests of an ostensibly postcolonial state, and touched in turn upon the intimate links between local and foreign capital. The extreme reluctance of President Khoury and his government to take any serious measures to discipline the concessionary companies stemmed from the close financial involvement both he and many in his circle had with these companies, including EdB.[31] One of the President's key confidants, Alfred Kettaneh, was on the board of EdB, and the construction interests owned by the president's brother, Fuad al-Khoury, for example,

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5443, Central Decimal Files 1950-54, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.

[30] See for example, U.S. Legation Beirut to Dept. of State, "Deteriorating Political Conditions in Lebanon" April 28, 1952, 783a.00, Box 4076, Central Decimal Files 1950-54, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.

[31] U.S. Legation Beirut to Dept. of State, "Government Announcement on Concessionary Companies" June 9, 1952, 883a.054, Box 5443, Central Decimal Files 1950-54, General Records of the Department of State (Record Group 59), National Archives at College Park, MD; U.S. Legation Beirut to Dept. of State, "The Political Control Exercised by the Commercial Class in Lebanon."

were consistently awarded contracts by EdB for construction materials for their distribution networks, in order to ensure favorable relations between the company and the regime.[32] Similarly, the President's son, Sheikh Khalil al-Khoury, was retained by the EdB, for a hefty annual salary, as one of their lawyers.[33] These linkages between the regime and the company helped insulate the latter from unfavorable government actions, such that although the 1948 monetary agreement with France had allowed for amendments to ameliorate some of the more egregious colonial provisions of the concessionary agreements (such as the exemptions from local taxes and oversight), the Lebanese government had taken no action since that time. This only changed when the popular protests in 1952 finally upset the political dynamic and required Khoury's administration to take some kind of action.

The other major issue raised by the consumer strike which fed into the overall crisis of early 1952, was the broader question of Lebanon's energy needs and the lack of adequate supply capacity in spite of spiraling demand, estimated to be rising at a rate of 12.5% per annum by the early 1950s.[34] It was becoming clear, in the wake of the refusal by European investors in EdB to install new generating equipment, that only direct state involvement could avert the looming energy crisis that threatened to destabilize the country economically and politically over the medium to long term. Such a state of affairs did not have a ready solution, at least within the context of the recently established economic orthodoxy of postcolonial Lebanon. The lack of any state planning mechanisms or institutions, and the sanctification of private sector hegemony in the economy, left the government woefully ill-prepared to respond to a chronic problem of basic infrastructure such as the limitations of the country's electricity network. Whilst the erstwhile status quo on energy had been effective from the point of view of ensuring amicable relations between European capital and its local allies, and for demonstrating how favorable an investment climate Lebanon represented for foreign capital, especially in an era where outright nationalization of foreign companies was being considered elsewhere in the region, the crisis of 1952 highlighted the fundamental incompatibility between the short-term focus on profit on the part of foreign stockholders, and the wider needs of Lebanon's economy and society.[35]

Despite the rising demand for electric power, from the domestic and commercial sectors, EdB, and the other, smaller, private utility companies, were reluctant to invest in new equipment and expand the existing supply. On the one hand, with profits at high levels and a steady and, for the EdB at least, secure demand for electricity guaranteed by the

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[32] U.S. Legation Beirut to Dept. of State, "The Political Control Exercised by the Commercial Class in Lebanon," 7–9.
[33] Ibid., 10.
[34] Bruins to Ruff, "The Reaction of Concessionary Company to the Electric Power Crisis in Lebanon," 2.
[35] 1952 was, for example, the year in which Iran's Mohamed Mossadegh sought to ensure greater Iranian control over the AIOC, an event which created great anxieties in Western capitals, whilst just four years later Gamal Abd' al-Nasser's regime in Egypt nationalized the Anglo-French Suez Canal Company.

concessionary arrangements, there was little incentive for the companies to invest capital unless absolutely necessary. On the other hand, in the wake of rising popular discontent regarding excessive charges and poor service, and the resultant pressure this was placing on parliament to appear proactive, European investors in Lebanon's energy sector expressed concerns about the security of any future capital investments they might make. Rene Castermans, one of the directors of EdB, complained to the Lebanese government that popular pressure for lower energy rates would make new capital investments unprofitable, and that new generating equipment could only be paid for by way of a Lebanese government loan.[36]

This was not simply a clash between residents of Beirut and a foreign concessionary company, but represented a broader conflict between different sets of interests within the ruling economic elite that a resolutely free market doctrine could create. Beirut was, for example, in the grip of a construction and real estate boom which was rapidly changing the urban landscape of the city, and was focused especially on the high-end luxury market.[37] Similarly, the trade and services sectors were continuing to expand rapidly, and were heavily focused in and around Beirut. The continuation of these trends would require the development of a more reliable and more extensive electricity network, one which the current structure of the energy sector was not equipped to deliver. The intimate interlinking of the most powerful elements of the ruling elite with the concessionary companies generally, and in this case, with EdB in particular, was increasingly a problem for other elements of the Lebanese bourgeoisie. For these latter, the state needed to take a more activist role in facilitating infrastructural development and in disciplining those sections of capital whose particular interests were not in line with the rest of the capitalist class. The outcome of the crisis led to some initial moves in this direction, but, as will be discussed later in this chapter, without a fundamental change in the direction of the country's political economy.

Parliament initially responded to the consumer strike during its session on January 15th, shortly after the strike began, and it was quickly clear that there was a groundswell of opinion that favored amending the concessionary agreements to ensure a better deal for the Lebanese consumer. Some parliamentary deputies, including future president Kamil Sham'un, alleged that the concessionary companies were taking LL50 million (around

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[36]Bruins to Ruff, "The Reaction of Concessionary Company to the Electric Power Crisis in Lebanon," 2.
[37]U.S. Legation Beirut to Dept. of State, "Income Arising in the Construction Sector" (Appendix to "National Income of Lebanon," March 31, 1952), 883a.10, Box 5444, Central Decimal Files 1950-54, General Records of the Department of State (Record Group 59), National Archives at College Park, MD; Doxiadis Associates, Government of Lebanon, and United States Operation Mission/Lebanon, "First Outline of the Lebanon National Housing Program" September 27, 1957, Box 4924, Central Decimal Files 1955-59, General Records of the Department of State (Record Group 59), National Archives at College Park, MD. Such luxury apartments included modern conveniences such as elevators and central air conditioning, both of which, of course, required a steady supply of electricity.

$15.6 million at official exchange rates) in profits out of the country annually[38], and went so far as to propose the nationalization of EdB, a demand that was quickly dropped in the face of concerns expressed by Prime Minister Abdullah Yafi that such moves would discourage foreign investment in Lebanon.[39] This set the tone of the government's initial efforts to resolve the crisis, which were focused on trying to persuade the boycott leaders not to "frighten off" foreign capital. This met with little success and the government switched tactics and employed a committee of Dutch experts to report on the energy sector in Lebanon. The committee found that electricity rates in the country were comparable with those of neighboring states and implied that a reduction in rates would make capital investments by the company risky from a profitability point of view. The boycott committee remained unimpressed by this move and the government was eventually forced to try and plead with the company to lower its rates to the level they were at in 1943. The company's response, as indicated above, was that such a lowering of rates would make the much-needed investments in new generating capacity unfeasible.[40]

The strike was ultimately settled by way of a solution that satisfied the strikers whilst at the same time placating the EdB. After the failure of its efforts to pressure the strikers to back down, the government eventually conceded defeat and decreed a new schedule of electricity rates that amounted to a 22% reduction in prices, backdated to the start of the strike in January. The boycott committee considered this a satisfactory solution, though in the communiqué issued to call off the strike, they argued that continued improvements in service and the payment of income taxes by the company were a condition of the strike ending.[41] At the same time, the government secretly communicated to the EdB that they would make good on any losses sustained as a result of the lower rate schedule. This failed to assuage the anxieties of the company's stockholders about the security of their investments in Lebanon, however, and the EdB continued to state that they would not make further investments of capital in the country.

The popular unrest caused by the profiteering of the concessionary companies had at least two significant effects. Firstly, it forced the government to revisit the concessionary arrangements, some of which, as mentioned, dated back to the Ottoman period, and to consider revising them to better suit the 'national interest', however that came to be defined. Part of the result of this was a gradual effort to 'Lebanize' the concessionary companies, a process that, in line with the general trajectory of government economic policy, did not entail outright nationalization, but rather the replacing of majority French

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[38] U.S. Legation Beirut to Dept. of State, "The Political Control Exercised by the Commercial Class in Lebanon," 28.
[39] Bruins to Ruff, "The Reaction of Concessionary Company to the Electric Power Crisis in Lebanon." Given Sham'un's enthusiastic embrace of unregulated laissez-faire capitalism during his tenure as president, this push for nationalization should probably be viewed with a high degree of skepticism. See Traboulsi, *A History of Modern Lebanon*, chap. 8.
[40] U.S. Embassy Beirut to Dept. of State, "Government Ends Electric Power Strike by Yielding to Boycott Committee," 2–3.
[41] U.S. Embassy Beirut to Dept. of State, "Government Ends Electric Power Strike by Yielding to Boycott Committee", Enclosure 2.

(or other foreign) stockholders with majority Lebanese controlling interests. This process was a somewhat drawn out one, and it was not until 1960 that a final agreement was reached on the future of the Compagnie du Port (Beirut Port Company), the last major foreign owned concessionary company.[42] The advantages of such an approach to a ruling class committed to economic liberalism were obvious; the principle of private sector hegemony in the economy was preserved, whilst local intermediaries of foreign capital gained a slightly larger slice of the profits. The second major effect of the popular unrest was to reduce official opposition to new, large-scale energy projects funded by non-French sources, particularly the Litani Project. Since the irregular and unsatisfactory supply of electricity from EdB to Beirut consumers was a central element in the protests, and given that the EdB had made it clear that it was unwilling to invest in further generating equipment, it was clear that, if the energy crisis was to be resolved, the state would have to take a more active role.

The Litani Project

Genesis

The potential uses of the Litani River for national development purposes had been apparent for some time, but in the early years of the independent Lebanese Republic there was renewed interest in the possibility of a large-scale combined hydroelectric generation and irrigation project. In 1948, Ibrahim ʻAbd al-Al, an engineer and professor at the Ecole Superieure d'Ingenieurs in Beirut, and later the Director-General of the Ministry of Public Works, published *Le Litani: Etude Hydrologique,* a study and justification of a possible hydroelectric and irrigation scheme on the Litani.[43] This was followed by the release the next year of the Clapp Mission Report, a UN sponsored economic survey mission to determine possible resolutions to the Palestinian refugee crisis, which suggested utilizing refugee labor for irrigation projects in Lebanon, including on the Litani River.[44] Engineers from the US Bureau of Reclamation, brought in by the new Technical Cooperation Administration (TCA), a product of President Truman's 'Point Four' program, to study a

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[42] U.S. Embassy Beirut to Dept. of State, "'Lebanization' of the French-Owned Beirut Port Company."

[43] ʻAbd al Al, *Le Litani*. See also the summary of the major points of his book by staff at the IBRD, "A Combined Irrigation, Sanitation, and Hydroelectric Development Plan for the Litani River Basin in Lebanon" (memorandum, n.d.), Negotiations Volume I, Litani Power and Irrigation Project, Lebanon - Loan 0129, P005324, Archives of the World Bank Group, Washington, DC. ʻAbd al-Al believed that the Litani could be for Lebanon what the Nile was for Egypt.

[44]United Nations Conciliation Commission for Palestine, *First Interim Report of the United Nations Economic Survey Mission for the Middle East* (United Nations, November 16, 1949), http://unispal.un.org/UNISPAL.NSF/0/648C3D9CF58AF0888525753C00746F31. The mission was intended to determine if economic development projects could find 'productive uses' for the potential labor pool that the refugees represented.

potential Litani River hydroelectric power and irrigation scheme, released a preliminary report on their findings in 1951, before follow up studies led to the release of a comprehensive study and set of recommendations presented to the Lebanese government in 1954.[45] These reports and studies helped keep the notion of developing the potential of the Litani River in the public arena, and paved the way for the scheme that would eventually be developed with the help of funds from the International Bank for Reconstruction and Development (IBRD).

Unlike its neighbors, Lebanon had abundant water resources, the potentialities of which were only just beginning to be appreciated and made use of. The generation of power using hydroelectric means was beginning to develop rapidly in Lebanon after the Second World War, thanks to a number of private ventures backed by foreign companies and located in particular on the al-Bared and Ibrahim Rivers.[46] These schemes were yielding power, but still only on a relatively limited scale, due to the limitations of the water sources they relied upon and the restrictions imposed by a privately driven development model where the rapid realization of profit was the primary goal and thus greatly shaped the projects embarked upon. As a result, by the early 1950s only a relatively small percentage of what was possible in terms of hydroelectric generation was being utilized, and a substantial scheme for the Litani River promised to greatly expand the amount of hydroelectric power being produced in the country.

The Litani was an attractive option for a number of reasons, in particular because it was both the longest river in Lebanon and because its course extended entirely within the boundaries of the country, negating the need for potentially complex and explosive regional discussions on water development, as had been the case, for example, with the Jordan River.[47] For much of its course the Litani River had an elevation of around 1000 meters, before dropping sharply to the Mediterranean coast near the southern city of Sur (Tyre), making it a promising prospect for the generation of hydroelectricity. The development of irrigation resources utilizing the Litani waters was a more complicated proposition however, since much of the Litani river basin was not suitable for agriculture, which would require the construction of tunnels and canals to redirect waters to agricultural areas.[48] With or without an irrigation component, the size and scale of the

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45 V. Bolis to F.D. Gregh, "Basic Background Information Re the Litani Project" August 30, 1954, Negotiations Volume I, Litani Power and Irrigation Project, Lebanon - Loan 0129, P005324, Archives of the World Bank Group, Washington, DC.

46 Nabil Najib Abboud, "The Litani Project: An Evaluation" (MBA Thesis, American University of Beirut, 1969), 17–26. This thesis, which offers some useful background and context for the Litani Project, is mainly aimed at assessing the project's outcome from an economic or business perspective, and did not have access to the IBRD files on which this chapter is partially based.

47 For a summary of some of the political problems caused by the various proposals for Jordan River development projects, see Masahiro Murakami, *Managing Water for Peace in the Middle East: Alternative Strategies* (Tokyo: United Nations University Press, 1995), Appendix C.

48 The exception was near the terminus of the river, along the Mediterranean coast where prospects for citrus and banana cultivation were good.

project, as it was conceived by the various proposals, was bigger than anything attempted thus far in Lebanon, and would involve the mobilization of specialist engineering and planning expertise, beyond the scope of what the indigenous private sector was itself able, or willing, to provide at that point. Similarly, given the limitations of the domestic financial market, with its near-exclusive focus on short-term credit to finance trade, construction and speculation[49], the project as a whole would require extensive financing from an international source, and would necessitate an active role for the state if it was to have any chance of being realized.

The first visit to Lebanon by IBRD personnel occurred in 1948, and the possibility of securing funds from the bank was discussed in general terms.[50] Following subsequent IBRD missions to Lebanon, and more in depth studies of the Lebanese economy and Lebanese development needs, President Kamil Sham'un formally cabled the bank in August 1954 to suggest preliminary negotiations should begin in earnest with the aim of securing a loan for Lebanon to cover the foreign exchange component of the Litani scheme costs.[51] At this point the scheme was conceived of as entailing the construction of a dam and reservoir, various hydroelectric generating stations that would produce in total around 170,000 kW, and a scheme for irrigating up to 20,000 hectares of land in the southern Biqa' Valley, the western slopes of the Lebanon Mountains range, and along the Mediterranean coast. The first stage of the scheme, projected to take six years to construct would cost LL117 million ($36 million), with a projected total cost for the scheme as a whole of LL340 million ($106 million).[52] Negotiations with the IBRD were concluded in the summer of 1955 for a loan of $27 million that would cover the foreign exchange component of the Litani project.[53]

The entity that was formally the borrower of the loan was a newly created agency, the Office National du Litani (ONL), whilst the Lebanese government acted as guarantor.[54] The ONL was created by government decree in 1954 and was charged with overseeing the development of the Litani and its resources. The ONL was to be an autonomous agency, headed by a board of nine directors with broad powers to oversee the construction and financing of the Litani project with little-to-no oversight from the relevant government ministries.[55] The ONL had considerable discretion to manage the project as it saw fit, and in

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[49] See Chapter 1.
[50] V. Bolis to F.D. Gregh, "Basic Background Information Re the Litani Project," 2.
[51] Ibid., 3. At this point Sham'un claimed to be opposed to an IBRD loan on the grounds that it would create inflationary pressures and could lead to higher equipment costs.
[52]Ibid., 1–2.
[53] "Loan Agreement Between International Bank for Reconstruction and Development and Litani River Authority" August 25, 1955, Administration Vol. I, Litani Power and Irrigation Project, Lebanon - Loan 0129, P005324, Archives of the World Bank Group, Washington, DC.
[54] The ONL was usually referred to by its English name in the IBRD documents – the Litani River Authority (LRA).
[55] See U.S. Embassy Beirut to Dept. of State, "Lebanese Law Creates National Litani Office" (copy of memo, August 10, 1954), Negotiations Volume I, Litani Power and Irrigation Project, Lebanon - Loan 0129, P005324, Archives of the World

particular could make its own decisions on which contractors to hire for the project and on what basis to hire them, without necessarily being bound by considerations of cost. There was no requirement to go through a competitive tendering process, nor was it incumbent upon the ONL to accept the cheapest bids for the work. In short, the ONL, and in particular its nine board members, had extensive control over the direction and outcome of the whole Litani project. This arrangement left open the possibility of both extensive interference in the process of selecting contractors and outside influence by powerful interest groups over the way the project as a whole unfolded.[56] This was all done in the name of expediency and efficiency, claimed the government, which reiterated the importance of the Litani project for Lebanon's future and the necessity of beginning work as quickly as possible. In the absence of a private company that could take on the Litani project, the stated preference of many parliamentary deputies, a government agency insulated as much as possible from the kind of inefficiencies associated with a public bureaucracy was, claimed the government, the next best thing. The ONL was thus the ideal entity to carry out this vital national project.[57]

In fact, as one IBRD official pointed out, the ONL was, in reality, "designed to function as a commercial concern clothed in government authority."[58] This somewhat ambiguous arrangement, with the ONL existing along the borders of the public-private divide, allowed it to benefit from the broad freedom from direct state oversight that any other private Lebanese concern did, whilst also enjoying some of the privileges that accrued to official state bodies. These latter included powers that, whilst not officially referenced in the law that established the ONL, belonged to any government department or agency. Thus the ONL had the power to acquire and own land, to pay compensation to those affected by its projects, and to collect and hold revenues from those who benefitted from its operations.[59] Within a couple of years of its official creation, the ONL was already a landowner and had paid out compensation for the land acquired, though the manner in which this was done, and the amounts paid out for the land, would later prove to be the object of some criticism.

The creation of an autonomous public agency was not the government's first preference however, and was the outcome recommended by the Parliamentary Finance and Budget Committee in its report on the government's proposal to create a joint public-private National Company for Water and Electricity, which would have had a capitalization of LL100 million, of which LL45 million would have been comprised of private sector

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Bank Group, Washington, DC. There was a limited oversight role for the Ministries of Public Works and Finance, and the Cour des Comptes, which was supposed to audit the operations of all government entities.
[56] Ibid., 3.
[57]U.S. Embassy Beirut to Dept. of State, "Lebanese Law Creates National Litani Office", especially Enclosure 3..
[58] N. Chakravarti to files, "Notes on Litany [sic] River Authority (being the Summary of Discussions with the Officers of the Authority)" October 9, 1956, Administration Vol. II, Litani Power and Irrigation Project, Lebanon - Loan 0129, P005324, Archives of the World Bank Group, Washington, DC, p1.
[59] Ibid., 2.

investment.[60] The Committee, along with commentators in the media and elsewhere, was highly skeptical of the indigenous private sector's willingness to invest in a project with little immediate prospect of a profitable return on investment. They also pointed out that potential foreign contractors might seek to invest in the company, thus creating what might become, in effect, a new concessionary company.[61] There was also an additional concern, one which surfaced multiple times in the discussions and debates around whether or not to embark upon the Litani project and if so how best to go about it: the acute awareness of Israeli interest in the waters of the Litani River. The Committee claimed that Israeli interests might seek to invest, through surreptitious means, in the public-private venture and thus control the Litani development project for their own ends.[62] Regardless of the likelihood of such an outcome, it spoke to the anxieties around the intentions of Lebanon's increasingly powerful, and aggressive, southern neighbor, especially vis-à-vis Lebanon's natural resources.

Zionist interest in the Litani River dates back to at least the early twentieth century, when Zionist thinkers proposed the inclusion of the Litani waters within the borders of a future Jewish state.[63] During negotiations in the League of Nations over the extent of the proposed Mandate for Palestine after World War One, the Zionist movement lobbied, ultimately without success, for the inclusion of the Litani within the borders of the new state. In 1919, Chaim Weizmann, chair of the World Zionist Organization (WZO) wrote to British Prime Minister, David Lloyd George, arguing that the waters of the Litani were "valueless to the territory north of the proposed frontiers [i.e. Lebanon]. They can be used beneficially in the country much further south [i.e. the Palestine Mandate]."[64] Such sentiments were reiterated by future Israeli Prime Minister, David Ben Gurion, in 1941 to an international investigative commission on the question of Palestine. Long after the establishment of the State of Israel, both Ben Gurion and Israel's Defense Minister Moshe Dayan continued to be strong advocates of an Israeli occupation of south Lebanon for the purposes of controlling the Litani waters.[65] In the aftermath of the June War of 1967, Dayan stated that Israel had achieved "provisionally satisfying frontiers, with the exception of those with Lebanon."[66] Israel's opportunity to control the Litani came a decade later with the initial invasion of Lebanon, 'Operation Litani', the first attempt to crush the PLO in Lebanon and establish a more stable, and more pliant, regime on Israel's northern border. In the aftermath of the second invasion of Lebanon in 1982, Israel established a so-called 'security zone' in the south of the country which included the Litani river. Israeli forces confiscated maps and technical documents from ONL offices in Beirut and the Biqa' Valley,

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[60]U.S. Embassy Beirut to Dept. of State, "Lebanese Law Creates National Litani Office", Enclosure 2.
[61] Ibid., Enclosure 2.
[62] Ibid., Enclosure 2.
[63] Hussein A. Amery, "The Litani River of Lebanon," *Geographical Review* 83, no. 3 (July 1, 1993): 229–37.
[64] Ibid., 233.
[65] Ibid.
[66] Ibid., 233–4.

whilst military engineers conducted seismic surveys of the western portion of the river. There were also numerous reports of Israeli forces siphoning water from the Litani to the Jordan River, some 10 kilometers away.[67] Thus, the concerns of those Lebanese commentators who, in the 1950s, feared Israeli motives regarding the Litani River, were not without foundation. Nevertheless, possible Israeli designs on the Litani were, at this stage at least, not the driving motivation behind official interest in pushing the project forward.

Negotiations with the IBRD were concluded by the summer of 1955 and the loan of $27 million was officially approved in August. However, the loan was not ratified by the Lebanese parliament until some time after that, due to ongoing opposition to the loan and the project as a whole, and due to the political fragility of the Lebanese government. Opposition to the loan centered on a number of issues, in particular the desirability of contracting a large foreign loan, and the potential such a loan would create for foreign interference in Lebanese affairs, as a consequence of the oversight requirements of the IBRD.[68] Critics charged that the terms offered by the IBRD were too onerous, and that the government had not made adequate attempts to reach out to possible alternative creditors.[69] Alternatively, argued some, Lebanon could and should have relied upon on its own resources, such as the substantial reserves of gold being used to support the currency, or else the possibility of more generous royalties from the oil pipelines that transited through Lebanese territories should have been explored.[70] On this latter point, Syria had recently secured a much more favorable deal from the Iraqi Petroleum Company (IPC), which owned a pipeline that terminated in the northern Lebanese city of Tripoli, and there was anticipation that a similarly favorable deal was pending for Lebanon.[71] It was thus far from clear, alleged these critics, why a loan from the IBRD was the best option for Lebanon and for the Litani project.

In reality, many of these specific arguments lacked substance and, in some cases at least, were probably more about political posturing vis-à-vis the administration of

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[67] Ibid., 234.

[68] The Lebanese Communist Party in particular based its criticism of the Litani loan on the argument that it was inviting greater imperialist involvement in Lebanese affairs because the IBRD was, in its view, a US-dominated institution that served Western imperialist interests.

[69] See the presentation and rebuttal of this point in, F. Dorsey Stephens, Letter No. 147, Enclosure 2, "The Resignation of the Emir and the Litani Loan" by Kesrouan Labaki (*Le Soir*, Dec 1st, 1955).

[70] Ibid., Enclosure 4, "Questions and Answers on the Litani" by Kesrouan Labaki (*Commerce du Levant,* Nov. 30th, 1955) pp. 6-10.

[71] In fact, as IBRD officials noted, the deal struck between Syria and the IPC was based on an improved 'tonnage per mile' formula, which was unlikely to yield substantial benefits for Lebanon because the latter country was so much smaller, and the distances transited by the pipelines so much shorter, than in the Syrian case. Substantial increases in royalties could, therefore, only come about through the application of a different formula, something the IPC was highly unlikely to accede to. Ibid., 1.

President Kamil Sham'un, than seriously questioning the Litani project.[72] As defenders of the government pointed out, it was unlikely that an alternative lender would emerge and offer Lebanon better terms, or require less oversight, for a long-term loan than the IBRD, and, at least with respect to the possibility of greater oil royalties, the possibility of utilizing only state resources for the project was a chimera. More substantive were complaints about the use, or non-use, of the gold reserves that the Ministry of Finance had been actively accumulating since independence in order to back the national currency. As discussed in Chapter One however, the utilization of national resources for the defense and stability of the currency was a key plank of the postcolonial economic consensus in Lebanon, and the utilization of such resources for other purposes would have necessitated a fundamental change in the outlook of the Lebanese ruling class. Ultimately, the interests of those who wanted to see the Litani project undertaken, and the IBRD loan ratified, won the day and parliament eventually approved the loan on December 30th 1955, partly as result of some last minute negotiations over the regions to be covered by the proposed irrigation scheme.[73] Despite the extensive political furor created by the deliberations over ratification of the loan, only three deputies voted against it and an accompanying decree authorizing government funds for the project, a condition of the loan agreement with the IBRD, passed unanimously.[74]

In addition to domestic political factors, it is important to situate the heated debate on the Litani project in the broader political context of the mid-1950s Middle East and to recognize that opposition to the regime of Kamil Sham'un was only part of the impetus for opposition to the project and the IBRD loan. Anti-colonial nationalism was on the ascent in the region, and globally, and the loan ratification vote in Lebanon took place less than a year before the Suez Canal crisis and the tripartite invasion of Egypt, and just over two years after the violent overthrow of Mohammad Mossadegh in Iran, following his failed attempt to wrest control of Iranian oil resources from the Anglo-Iranian Oil Company. Thus, awareness that Western powers were actively engaged in an attempt to secure their continuing hegemony in the region, and, correspondingly, to limit the ability of local actors to resist that hegemony, was especially acute. The arguments of Arab nationalists,

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[72] Sham'un's government was highly unpopular for a variety of reasons, in particular because of its increasing concentration of power in the executive branch and the gradual exclusion of part of the traditional political class from the corridors of power. This was balanced by a corresponding increase in reliance on the support of external powers, particular the United States, to bolster the regime, a strategy that would backfire badly in the civil war of 1958. See Traboulsi, *A History of Modern Lebanon*, chap. 8; Gendzier, *Notes from the Minefield*, chap. 10.

[73] Some of the deputies from the south agreed to vote for the loan, only on condition that studies were undertaken to ascertain the feasibility of including their constituencies in the Litani irrigation scheme. See Alfred E. Matter, "Loan LE 129: Litani River Project - Organization and Planning of the Major Works (Report on Conversations During Field Visit of April 1956)" May 1, 1956, Administration Vol. I, Litani Power and Irrigation Project, Lebanon - Loan 0129, P005324, Archives of the World Bank Group, Washington, DC, p1.

[74] Department of Operations, Asia and Middle East, "Report of Mission to Lebanon" November 29, 1956, Administration Vol. II, Litani Power and Irrigation Project, Lebanon - Loan 0129, P005324, Archives of the World Bank Group, Washington, DC, p8.

supporters of Egyptian leader Gamal ‘Abd Al-Nasser, Communists and other leftists that the IBRD was a tool of imperialist control, and that the loan for the Litani project would inevitably result in loss of sovereignty and was an invitation to foreign powers to interfere in Lebanese affairs, resonated with an increasingly large section of the population. Sham’un’s government could not easily brush such arguments aside, and the legitimacy of the postcolonial Lebanese state, both in the eyes of the Lebanese population and other regional powers, depended upon the government walking a fine line between an open embrace of Western interests in the region and paying at least token lip service to nationalist sentiments. Once the government had won the Litani ratification vote, and as anti-imperialist and Arab nationalist political forces grew stronger in Lebanon and in the region, the government was increasingly reluctant to allow parliament to discuss the Litani project for fear of creating a political opening for nationalist forces. This sometimes required careful maneuvering, with the assistance of the IBRD’s legal advisors, to circumvent rules and regulations governing IBRD loans, so as to keep parliamentary involvement to a minimum and allow the government to make changes and amendments to the project.[75]

Even as the political contestation over loan ratification was getting underway, the ONL was proceeding with the initial stages of the project. In early July 1955, even before the formal signing of the loan agreement with the IBRD, the ONL completed negotiations with a consortium of French companies, the Groupe Francais du Litani (GFL), to act as engineering consultants and to provide supervision of the planned works. The consortium consisted of three French firms, Omnium Lyonnais, SARU, and Etudes et Enterprises, and was awarded the contract to provide consultancy services under somewhat controversial circumstances.[76] The initial winning bid had come from an American engineering group, Parsons and Harza, which had experience with dam construction and hydroelectric projects.[77] In June 1955, the ONL announced that Parsons and Harza had won the contract, before hastily reversing this decision when it became clear that the latter had made a miscalculation of the costs it was seeking reimbursement for from the ONL, and had

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[75]Ibid., 8–9. Particular problems arose in this respect as a result of the ONL’s desire to make major revisions to the original Litani project, and to involve itself in electricity generation projects not directly connected to the Litani hydroelectric scheme, neither of which were permitted under the agreement with the IBRD. These issues are discussed further below.

[76] See F.G. Bochenski to files, “Consultants for the Litani Project” June 20, 1955, Negotiations Volume I, Litani Power and Irrigation Project, Lebanon - Loan 0129, P005324, Archives of the World Bank Group, Washington, DC; J.C. Mehaffey to E. Wayne Rembert, letter (September 29, 1955), Administration Vol. I, Litani Power and Irrigation Project, Lebanon - Loan 0129, P005324, Archives of the World Bank Group, Washington, DC.

[77] Parsons, and the Harza Engineering Company (now part of MWH Global) were actually two separate US engineering firms, located in California and Chicago respectively, who submitted a joint bid for the ONL contract. Both had extensive experience in major infrastructure projects in the US and in the postcolonial world after WWII.

included expenses that the ONL was in fact not prepared to cover.[78] In protesting the ONL reversal, the US firm argued firstly, that the mistake stemmed from an error in the translation of the original French-language tender, a translation commissioned by Parsons and Harza but which the ONL had accepted without comment, and, secondly, that in any case the ONL had announced the US firm the winner and was bound by the decision under Lebanese law, a position which the local lawyer of Parsons & Harza confirmed.[79] The ONL did not accept this interpretation however, and claimed that the mistake was Parsons and Harza own, and that it had no choice but to offer the contract to the next lowest bidder. Parsons & Harza threatened legal action, and the US government considered intervening with President Sham'un, a course of action the Beirut embassy ultimately deemed political inadvisable.[80]

Beyond this apparent case of mistranslation and miscommunication, there was another potential dimension to the controversy that was not discussed so publicly. An official at the US state department informed IBRD personnel that there was a broader context to the rejection of the Parsons and Harza bid, one which connected the ONL to the powerful French-owned Banque de Syrie et du Liban (BSL). According to this official, ONL Chair Salim Lahoud had contracted a large loan from the BSL to finance his own industrial interests, and the BSL were using this as leverage to pressure him to reject all other bids and accept the bid of the French GFL, an outcome which indeed came to pass.[81] Whether this was, in fact, a key factor behind the awarding of the contract to the GFL is difficult to ascertain with any certainty, but it is clear that the BSL, as the center of the network of French commercial interests in Lebanon, was actively engaged in trying to secure greater influence and business for French companies throughout this period. A clear financial connection between the powerful head of the ONL and the Banque would have provided an opportunity for exerting influence over how the first big Litani contract was awarded and to whom, and, as mentioned above, the structure and procedures of the ONL, with their lack of oversight and broad operational authority, created ideal conditions for exerting such influence. Again, this does not prove that the BSL acted to ensure a French company won the contract, or that they did so in this particular manner, but, along with the testimony of the state department official, it suggests that this was at least a real possibility.

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[78] Such costs included the salaries of local employees, as well as local transport costs, and P&H did not include them in their bid because they mistaken believed they were covered by the ONL. The proper inclusion of these costs would, however, have increased the P&H bid by US$1.5 million. F.G. Bochenski to files, "Consultants for the Litani Project."
[79] V.E. Bolis to files, "Meeting with Executives of Parsons and Harza" July 13, 1955, Negotiations Volume II, Litani Power and Irrigation Project, Lebanon - Loan 0129, P005324, Archives of the World Bank Group, Washington, DC.
[80] F.G. Bochenski to files, "Consultants for the Litani Project"; F. Dorsey Stephens to F. Bochenski, Letter No. 107 (July 8, 1955), Negotiations Volume II, Litani Power and Irrigation Project, Lebanon - Loan 0129, P005324, Archives of the World Bank Group, Washington, DC, p2.
[81] F.G. Bochenski to files, "Consultants for the Litani Project." The second lowest bid was from Sir Alexander Gibb & Partners, but they recused themselves on the grounds that they were overextended on projects in the Sudan and elsewhere, thus leaving the door open for the ONL to accept the bid from GFL, the third lowest bidder.

Regardless of how the GFL became the consultants for the Litani project, IBRD personnel soon came to have serious reservations about their suitability for the project. These reservations were largely fourfold; firstly, the companies that comprised the GFL consortium had predominantly worked on projects in France or in French colonies, and were as a result accustomed to French administrative and legal procedures, a fact which IBRD personnel believed may have led to a tendency to issue tenders for work in an overly 'Francophile manner', to the detriment of non-French firms. Secondly, more broadly, the GFL did not appear to have very much experience performing the kind of supervisory role envisaged in the contract with the ONL, which naturally raised questions about how well such a relatively complex project would be managed and whether the ONL would in fact receive the expert assistance it required to make the project a success. Thirdly, the GFL lacked internal cohesion as a consortium and there was an absence of agreement about how duties and responsibilities should be divided among the three firms that made up the group. Finally, it soon became clear that the GFL was committing only limited numbers of personnel to the project in Lebanon itself, with a supporting staff based in Paris, and qualified engineering support was particularly lacking.[82] This was compounded by the fact that the ONL itself was grossly understaffed, and was headed by a chairperson, Salim Lahoud, who was also a cabinet minister with extensive responsibilities elsewhere, and thus had only a limited capacity for regular involvement in the management of the Litani project. This was true of the other members of the board of directors, all of whom had other positions within the state bureaucracy or the private sector, and treated the Litani project as a part-time interest at best.[83] In fact, noted the IBRD, no one in a senior position in the Lebanese government or the state bureaucracy seemed to be devoting significant time to a project which was supposed to have immense national significance.[84] The understaffing and inexperience of the GFL was thus especially concerning to the IBRD in this context.

IBRD concerns were not, however, limited to the GFL and their suitability for the job of guiding the Litani project. A number of other developments occurred during 1956 which underlined how weak the management of the project was, as well as how inadequate the background studies and preparatory investigations for different aspects of the endeavor were. From the perspective of an outside entity such as the IBRD, it was often very unclear

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[82] Alfred E. Matter, "Organization and Planning of Major Works"; M. Piccagli to E. Wayne Rembert, Letter No. 3 of September 19th (September 19, 1956), Administration Vol. II, Litani Power and Irrigation Project, Lebanon - Loan 0129, P005324, Archives of the World Bank Group, Washington, DC; M. Piccagli to E. Wayne Rembert, letter of September 7th (September 7, 1956), Administration Vol. II, Litani Power and Irrigation Project, Lebanon - Loan 0129, P005324, Archives of the World Bank Group, Washington, DC.

[83] In addition to the chair, Salim Lahoud, there were supposed to be nine other board members, though one seat remained vacant. The eight members included four directors-general of government ministries, two businesspersons and two lawyers.

[84] "Memorandum on Problems Faced by the Second Litani Mission" August 16, 1956, Administration Vol. I, Litani Power and Irrigation Project, Lebanon - Loan 0129, P005324, Archives of the World Bank Group, Washington, DC, p7-8.

how and why decisions were being made, and what political motivations and calculations were driving the direction of government decisions and policies. One case which provided examples of some of these problems was the issue of new thermal power facilities at the Zouk Mikael plant near Beirut, which the ONL announced in early 1956 it intended to finance and construct. Additional generating capacity at Zouk Mikael was urgently needed to meet the needs of Beirut consumers and to ameliorate the ongoing shortages of power. The Litani project itself also required the installation of adequate thermal power to act as a support system when river water volumes dipped in the summer months, increasingly a time of peak usage in Beirut since the advent of air conditioning, and hydroelectric generation became correspondingly more limited. The ONL argued that it was required, as a result of the government decree passed the previous year, to take responsibility for installing new capacity at Zouk Mikhael, and that cost savings in the main Litani project would allow it to meet the costs of the equipment and installation. The IBRD disagreed arguing the ONL had no authority to engage in other power generation projects and that plans to make use of existing project funds were wildly unrealistic.[85] Furthermore, it was unclear why the government agency that was supposed to manage power supply and distribution in Beirut, the Office de l'Electricite et Transport en Commun (OETC), was not financing and carrying out the work itself, and why the ONL, a completely separate entity with a very different mandate, should be doing so.

The emergence of the OETC was the product of the government's decision to nationalize the former concessionary company Electricite de Beirut in March 1954, and under the Litani loan agreement with the IBRD this agency was supposed to purchase all the power produced by the Litani power plants once the project was complete. The IBRD was thus concerned to ensure that this agency was indeed capable of financing such purchases and managing distribution adequately, as a failure to do so would obviously impact the success and viability of the Litani project as a whole. In fact, as the IBRD soon discovered, the OETC was grossly mismanaged and financially insolvent, partly as a result of ongoing popular political pressures on the government to keep electricity rates in Beirut at affordable levels. The rate schedule initially issued by the government after nationalization of the electricity company would theoretically have provided sufficient revenues to make the OETC solvent, but it was abandoned in favor of a lower rate schedule as a result of consumer pressure, and the government had not authorized additional fund allocations to cover the shortfall.[86] As a result, the increasingly urgent need for expanded electricity generation in Beirut could not be met by the OETC, and hence the ONL was funding and managing the expansion of the Zouk Mikael plant instead. Ultimately, after the IBRD objected to this arrangement, President Sham'un personally intervened to authorize government credits for the OETC to

[85]Department of Operations, Asia and Middle East, "Report of Mission to Lebanon," 14–18. In fact, initial project estimates proved to be drastic underestimates of final costs, especially when the new variant of the project was approved (see below).
[86] Ibid., 17–18.

carry out the work itself, resolving the immediate impasse between the bank and the ONL over the issue, without, however, addressing longer term questions of the financing and management of the OETC or answering the question of why this solution had not simply been enacted in the first place.[87]

The purpose of highlighting this case is to demonstrate how prevalent poor management and planning appeared to be within state bodies responsible for public works and infrastructure in Lebanon, as well as how inadequate state funding to those bodies often was, and to highlight the sometimes unorthodox administrative arrangements that arose from this state of affairs. A similar example was provided by the planned Biqa' irrigation unit which was part of the overall Litani project, but was not funded by the IBRD.[88] The progress of developing this irrigation unit had been stalled because management of the drainage works was split between the Ministry of Public Works, which was responsible for the primary drainage system, and the ONL, which was responsible for the secondary system. This divided responsibility created management problems in itself, as it was difficult to plan and coordinate the effective distribution of water to farmers across two separate agencies, but was compounded by the fact that the Ministry of Public Works lacked sufficient operating funds and had a skeletal level of staffing, and thus its capacity to take a planning and managerial lead on a major irrigation project was extremely limited. The ONL, for its part, could do relatively little because primary management responsibility lay with the ministry, and thus the project, at the time of the IBRD mission in 1956 was stalled. IBRD staff noted with concern this arrangement, which did not augur well for the future of the irrigation component of the Litani project.[89]

Not long after the project was initiated, the ONL put forward a proposal to radically revise the original plans submitted to the IBRD at the time of the loan negotiations. The ONL, in consultation with the GFL, had been investigating possible alternative schemes that would allow for the generation of much larger amounts of hydroelectric power. These investigations culminated in the proposal for a 'Variante Sud' that would involve diverting the waters of the Litani river in a new, more complex and technically demanding configuration in order to allow for larger power plants to be built (see figures 2.1 and 2.2 below). One feature of the new plan that would prove to be particularly significant was the proposal to construct much longer, and more technically complex tunneling to divert the waters of the river to the power generation stations and to allow for the utilization of a

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[87] According to ONL Chair Salim Lahoud, the answer was that it was the government's intention to make the ONL the sole entity responsible for electricity generation in southern and central Lebanon, and to limit the OETC to distribution and sales only. See M. Piccagli to E. Wayne Rembert, letter of September 7th, 2.
[88] The bank had agreed to provide funding for some parts of the main project, in particular the dams and hydroelectric power scheme, but not others, like the Biqa' irrigation unit which was not deemed suitable for bank investment because of a lack of suitable data on its cost effectiveness.
[89] Department of Operations, Asia and Middle East, "Report of Mission to Lebanon," 19–21.

greater proportion of the water stored in the main reservoir.[90] The construction of this tunnel would subsequently prove to be particularly demanding and would throw many of the shortcomings of the project into new relief. The IBRD eventually gave its consent to the new variation, but only after expressing concern about the poor state of existing management and supervision, and the lack of adequate background studies for the new plan.[91] One concern expressed by the IBRD in particular highlighted the problematic larger context in which the Litani project was situated. The bank's personnel were concerned that the ONL was proposing an expansion of the power generation capacities of the hydroelectric scheme in the absence of any real analysis of the Lebanese electricity market or projection of future energy needs. Furthermore, in the years since the IBRD loan had first been negotiated, the government had been continuing to license new private power plants throughout the country, apparently without any coordination or planning for future needs. There was concern therefore that Lebanon would swing from having a serious power deficit to having a surfeit, and that the Litani scheme would ultimately have trouble selling all of the power it produced.[92] After requesting the reorganization of the consultant's office (GFL), and an analysis of the energy consumption and needs of the country, as well as a more complete study of the new variant for the project, the bank was satisfied that the changes to the project were sound and gave its assent.[93]

In sum, the context in which the Litani project was undertaken was characterized by a number of aspects which would shape how the project unfolded, and the impact it would eventually have on Lebanese development. Firstly, many of the actors involved in the project, from the engineering consultants hired to provide specialist assistance and supervision of the project, to government entities such as the ONL, the OETC and the Ministry of Public Works, were marked by varying degrees of mismanagement, incompetence, understaffing and in some cases financial insolvency. Secondly, partly as a result of the first aspect, the project itself consistently lacked proper advanced studies and planning, and the IBRD often had to make repeated requests for better studies and analysis to be drawn up. This was due in particular to the poor level of support provided to the ONL by the consultants, GFL, whose mandate included strategic oversight, and a responsibility

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90 N. Chakravarti to files, "Lebanon - Changes in the Litani Project" March 20, 1957, Administration Vol. II, Litani Power and Irrigation Project, Lebanon - Loan 0129, P005324, Archives of the World Bank Group, Washington, DC, p2.
91 Department of Operations, Asia and Middle East, "Report of Mission to Lebanon", Annex A, p4-5.
92 Ibid., Annex A, p3; "Memorandum on Problems Faced by the Second Litani Mission," 4–5.
93 With respect to the projections of future power needs, the nature and pace of Lebanon's economic growth in the post-independence period meant that such predictions often turned out to be significant underestimates. Actual growth of electricity consumption in Lebanon was remarkable, and the country witnessed a ten-fold increase in production between 1949 and 1968 (103 million KW to 1.03 billion KW). By regional standards Lebanese per-capita electricity consumption was high, estimated in the late 1950s by the IRFED mission at 195 kWh/person, compared with 85 kWh in Egypt, and 75 kWh in Syria. Tellingly, the US Bureau of Reclamation study on which the Litani project was based, estimated power needs in Lebanon in 1965 at 591 million kWh, and the GFL's own estimate was 740 million kWh, compared with an actual consumption in that year of 765 million kWh. The IBRD's concerns about overproduction of electric power should be seen in this context. See Abboud, "The Litani Project," 17–26.

to ensure the different elements of the project were properly integrated with one another. The GFL, however, often interpreted their mandate in an excessively narrow way and repeatedly provided only the most minimal level of support.[94] Finally, the project was situated within a chaotic and unplanned developmental context in which the short-term impetus for profitable investment triumphed over longer-term strategic planning. The Lebanese government made little or no effort to evaluate the country's overall electricity needs or plan an efficient and coordinated power generation network. Ultimately, as we shall see, the primacy of economic liberalism that this state of affairs represented would leave the Litani project in a somewhat precarious position, competing with private ventures to sell power to distribution agencies, when it was supposed to be the centerpiece of the state's energy strategy.

Realization

In keeping with the less-than-ideal administrative and economic context described above, actual work on the Litani project began at a glacial pace in 1957 and was hampered by a series of increasingly severe problems. One of the first major construction projects to be undertaken was the Awali Tunnel, intended to be 16 km in length, and which would transport water by gravity to the Awali power station, in order to generate 60,000 kW of electricity with a possible expansion to 106,000 kW (see figure 2.2).[95] The contract for this work was awarded to the Italian engineering firm Astaldi in August 1957, and the contractor arrived on site and began construction work shortly thereafter, utilizing both Italian and local laborers. However, work proceeded extremely slowly, largely because the ONL had yet to award the contract for an access road to the construction site, despite the specifications having been drawn up months previously and despite the awarding of the Awali tunneling contract to Astaldi. The existing dirt track leading to the site was wholly inadequate, preventing the movement of heavy equipment to the site, and in inclement winter weather it was virtually impassable. Poor communication and coordination between the consultants and the ONL, coupled with opaque and inefficient decision making processes within the ONL, held up the awarding of key contracts such as this for months, and resulted in piecemeal and uncoordinated construction timelines.[96] The outbreak of civil war in the late spring of 1958 brought work to a virtual standstill, and it did not resume until the end of the year when the security situation had finally stabilized, and the full labor force could be reassembled.

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[94] M. Piccagli to E. Wayne Rembert, Letter No. 3 of September 19th.
[95] N. Chakravarti to files, "Lebanon - Changes in the Litani Project."
[96] M. Piccagli, "End-Use Report on the Litani Project in Lebanon: December 13 - December 18, 1957" January 16, 1958, Administration Vol. II, Litani Power and Irrigation Project, Lebanon - Loan 0129, P005324, Archives of the World Bank Group, Washington, DC.

Fig. 2.1 – Diagram of Original Litani Project

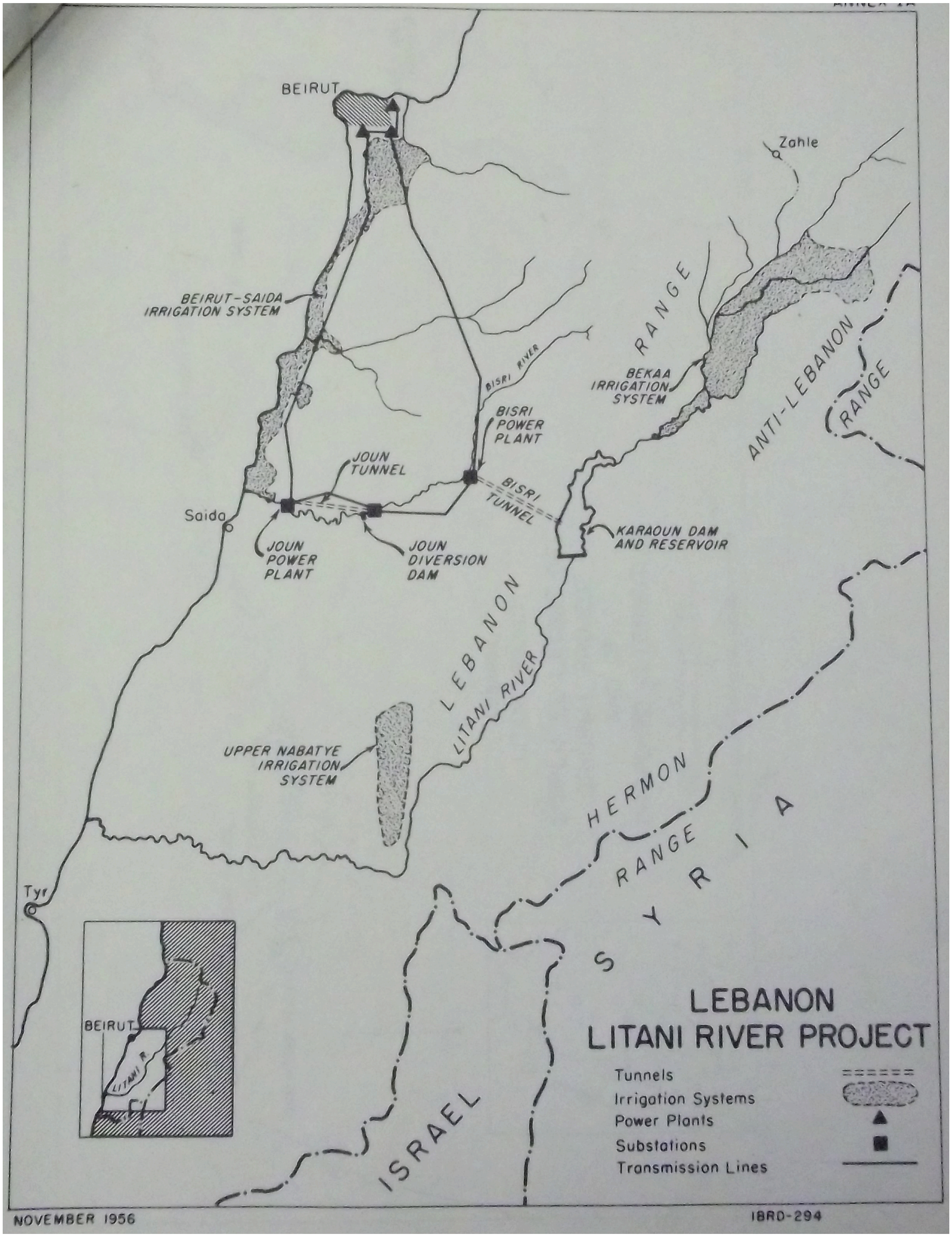
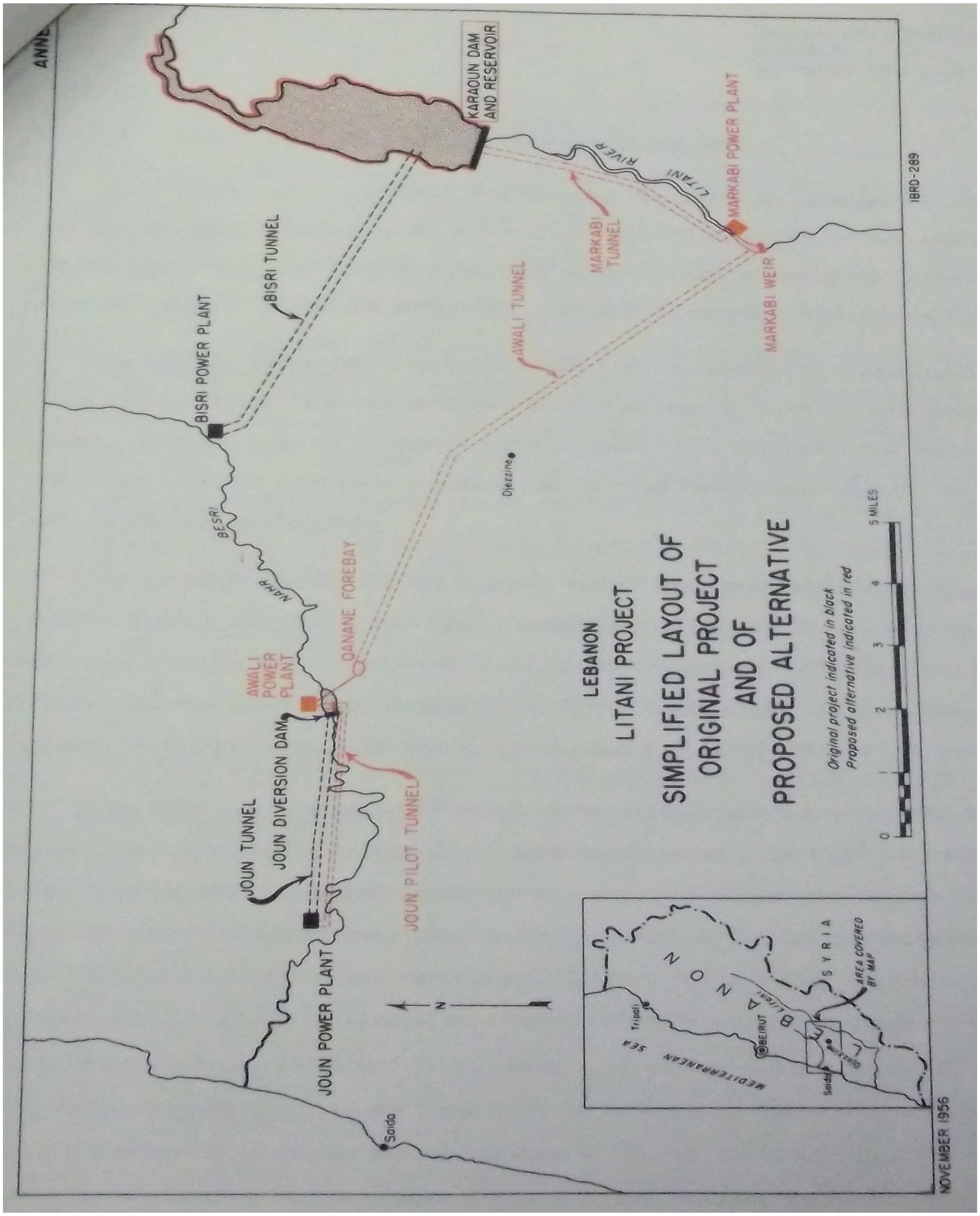


Fig. 2.2 – Diagram of Original and Proposed Alternative Project ('Variant Sud')



In addition to the civil conflict of 1958, one significant source of delays was local opposition to the acquisition of land by the ONL for the purposes of building the Karaoun dam and the reservoir. The ONL failed to make much headway on this question in the initial stages of the project, such that by 1959 the agency still did not possess the land rights to construct any of the planned works at the dam and reservoir site. Precise ownership of the land required for the project appears to have been a complex matter to determine, exacerbated by the fact that the land was subdivided into some twenty thousand small plots. In order to reach a settlement the ONL engaged in initial discussion with local families and the mayors of local communities, but whilst some progress was made in negotiations, the ONL was unable to press ahead with achieving a final settlement and local landowners remained dissatisfied with the offers provided to them. This sparked increasing resistance by local residents, which took the form of armed incursions onto the land and the blocking of access to the construction site for the contractor. The farmers also developed connections with the local laborers, likely drawn from the same communities, who were employed on the dam construction and induced them to strike in protest at the failure to reach fair terms for the land acquisitions. Ultimately, the appointment of a special commission to investigate land claims and to propose a reasonable and mutually satisfactory settlement to the dispute in 1959 appears to have brought active local opposition to a end, allowing construction work to progress unhindered.[97]

Once disputes over land acquisitions had been resolved, or at least overcome, work on the dam and reservoir could begin. The contract for the work had been awarded to Yugoinvest, a Yugoslav firm which had presented the cheapest bid for the work, but which subsequently proved to have a questionable level of experience and skill for the complex work required. The design for the dam had initially called for the construction of a rock-fill dam, which was deemed most suitable for the terrain in the area and involved fewer engineering challenges. However, the ONL intervened to demand a change in the design to a more visually impressive, but far more complex, multiple-arch buttress dam such that the final product would look "like the work of an engineer rather than just a pile of rocks."[98]

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[97]M. Piccagli, "End-Use Report on the Litani Project in Lebanon" May 21, 1959, Administration Vol. IV, Litani Power and Irrigation Project, Lebanon - Loan 0129, P005324, Archives of the World Bank Group, Washington, DC, p3; A.D. Spottswood to M. Piccagli, Letter No. 3 of April 14th (April 14, 1959), Administration Vol. IV, Litani Power and Irrigation Project, Lebanon - Loan 0129, P005324, Archives of the World Bank Group, Washington, DC.. It is difficult to determine the precise nature of the dispute between local landowners and the ONL, which may have been more complex than the IBRD personnel presented it. In their view, the problem was a mixture of pre-modern patterns of land tenure and poor government management and record keeping (which prevented easy determinations of ownership) coupled with the weak decision-making processes and general incompetence of the ONL in handling the matter. The decision to employ armed resistance, and to forge links with construction laborers, suggests that the local farmers who, given the proliferation of small plots were probably not wealthy, felt they had legitimate grievances that were not being addressed fairly. It is likely that, given access to the viewpoints and testimony of the farmers and laborers involved, this episode would appear very differently from the version presented in the IBRD files.

[98]M. Piccagli, "End-Use Report on the Litani Project in Lebanon: December 13 - December 18, 1957," 1. A rock-file dam is an embankment of earth and rock, rendered impervious to water by concrete or a lining of some kind, whist the multiple-arch buttress design relies on solid foundations and the buttresses for stability. The key element from the point of view of

Furthermore, it was the opinion of Laurits Bjerrum, a professor at the Geo-Technical Institute of Norway who was brought in by the ONL on a number of occasions to provide expert advice on the dam construction, that the GFL had specifically recommended this type of dam because it would be cheaper to construct, despite the fact that the porous limestone rock at the base of the valley into which the dam's foundations would be bored, was not ideally suited to such a design.[99] The GFL had a vested interest in keeping costs low as their contract provided for significant payouts of 50% of any cost savings achieved in the undertaking of the project, and this appears to have been a clear case where the desire for economy triumphed over sound engineering practice. The choice of a multiple-arch design proved to be a serious mistake, and it was soon clear that the administrative and engineering capacities of the Litani project were not capable of executing the more challenging design desired by the ONL and their consultants.

This poor design choice was compounded by the ongoing shortcomings in project management. On the one hand, the engineering consultants who were supposed to be supervising the work on the ground lacked any personnel with experience in the construction of dams, while the contractors were similarly lacking in experienced managers to lead the project on site.[100] IBRD personnel who visited the dam construction site periodically also reported that quality control in the construction of the dam arches was extremely poor, with wide variations in the thicknesses of the concrete arch supports.[101] More seriously still, the contractors and consultants failed to carry out adequate load-bearing tests of the concrete foundations of the dam, despite the urging of both outside experts and those members of the board of ONL with some engineering experience.[102] In fact, when Joseph Najjar, Dean of Engineering at the Ecole d'Ingenieurs in Beirut and a leading member of the faction of the ONL board that was opposed to the omnipotent ONL Chair, Salim Lahoud, urged the suspension of work to allow proper tests to be conducted, work appears to have been accelerated instead, and Najjar was apparently concerned that any tests that were conducted ran the risk of producing 'unreliable' results

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the Litani project is that the latter type of dam requires solid foundation rock and good quality control in the construction of the foundations to ensure the dam is stable, both of which proved to be lacking in this case.

[99] L. Louvet to files, "Lebanon - Litani River Authority" June 29, 1960, Administration Vol. V, Litani Power and Irrigation Project, Lebanon - Loan 0129, P005324, Archives of the World Bank Group, Washington, DC, p2.

[100] A.D. Spottswood to G.A. Hathaway, "Engineering Supervision - Litani Project" December 17, 1959, Administration Vol. V, Litani Power and Irrigation Project, Lebanon - Loan 0129, P005324, Archives of the World Bank Group, Washington, DC; G.A. Hathaway to A.D. Spottswood, "Litani River Project, Lebanon" February 24, 1960, Administration Vol. V, Litani Power and Irrigation Project, Lebanon - Loan 0129, P005324, Archives of the World Bank Group, Washington, DC, p5-6.

[101]M. Piccagli, "Lebanon - Litani Project: Report on End-Use Visit by M. Piccagli, May 1-5, 1960" n.d., Administration Vol. V, Litani Power and Irrigation Project, Lebanon - Loan 0129, P005324, Archives of the World Bank Group, Washington, DC, p3..

[102] The Dean of Engineering at the Ecole d'ingénieurs in Beirut was on the ONL board and protested frequently about the poor engineering standards being employed and the failure to carryout adequate load-bearing tests on the dam foundation, including writing to the Lebanese President warning him of the dangers and urging a fundamental change in the dam's design.

if not supervised properly.[103] This episode highlights the way in which the safe construction of the dam became hostage to the many administrative and political problems affecting the project, including the ripening conflict developing between the ONL chair and the minority faction on the board that supported him, and the majority faction led by Najjar.[104] Ultimately, it became clear that work on the multiple-arch design could not continue and new engineering consultants would recommend the abandonment of this design and a return to the original conception of a rock-fill type, as the least costly alternative.[105]

Not withstanding the problems with the design and construction of the main dam, it was construction work on the Awali tunnel which would prove to be one of the most difficult and dangerous parts of the project.[106] Work on the tunnel was hampered in particular by the discovery of layers of soft sandstone through which water would flow into the tunnel as it was being excavated. The engineering challenges of excavating a tunnel through soft rock such as this were significant, and required careful planning and supervision of the tunneling work, as well as adequate measures to continually assess the state of the rock as excavation progressed. As in other areas of the project, however, adequate engineering supervision was sorely lacking, and the IBRD technical personnel who monitored the project noted that, at the time of the first major problems with the Awali tunneling work in 1959, the GFL had assigned a site supervisor who, whilst likely a competent engineer overall, had no real experience with this kind of tunneling work, and was "not considered qualified for the difficult assignment of supervising the completion of the sandstone sections of the Awali tunnel."[107] The ONL for its part had clearly lost confidence in the ability of its consultants to provide adequate on-site supervision and had assigned a parallel team of engineering supervisors comprised of mainly young, recent engineering graduates, many of whom had received some training with the US Bureau of Reclamation, but most of whom lacked any significant field experience.[108] Altogether, the engineers present on site, as the tunneling work got underway, generally lacked the experience and skill necessary to evaluate how work was progressing and whether adequate safety measures were being taken.

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[103] M. Piccagli, "Lebanon - Litani Project: Report on End-Use Visit by M. Piccagli, May 1-5, 1960," 3–4.
[104] Ibid., 4. The governance structure of the ONL up to this point had granted considerable power to the chair and allowed him to take major decisions without seeking the approval of the board.
[105] M. Piccagli to files, "Litani Project - Lebanon" April 6, 1961, Administration Vol. VI, Litani Power and Irrigation Project, Lebanon - Loan 0129, P005324, Archives of the World Bank Group, Washington, DC.
[106] The exact numbers of workers killed in the execution of the project as a whole is unclear, but work on the Awali tunnel was certainly dangerous. The day after a site visit by IBRD personnel in April 1958, a worker was killed during a tunnel collapse, and further major collapses took place as tunnel work continued. See Gail A. Hathaway to Mr Siem Aldewereld, "Litani River Project - Lebanon" September 17, 1959, Administration Vol. IV, Litani Power and Irrigation Project, Lebanon - Loan 0129, P005324, Archives of the World Bank Group, Washington, DC, p1-3.
[107] A.D. Spottswood to G.A. Hathaway, "Engineering Supervision - Litani Project," 1.
[108]Ibid. These young Lebanese engineers would later furnish much of the evidence attesting to the negligence and incompetence of the work conducted on the Litani project.

The first major tunnel collapse occurred on August 13th 1959, and a large inflow of sand blocked three kilometers of the excavated tunnel, reversing almost all the progress made up to that date. The contractor attempted to clear some of the sand, and had made some progress in this respect when further cave-ins occurred between November 1959 and January 1960. In a particularly severe case, on January 27th, sand flows refilled the tunnel once again and poured out of the entrance, covering the construction yard and machinery in a two-foot layer of sand.[109] In June 1960, the commercial periodical *Commerce du Levant* reported that the official Lebanese government inquiry commission into the Litani project had concluded that the original tunnel collapse, on August 13th 1959, was the result of a failure by the Italian contractors (Astaldi) and the French consultants to take adequate preventive measures to ensure safe construction, and, in particular, in the week prior to the collapse had failed to conduct advanced borings ahead of the tunneling work to check for problems, as had been the accepted procedure.[110] Moreover, the existence of a deep layer of sand in this location had long been noted by the engineers from the US Bureau of Reclamation, and ample geological survey data pointed to the problems of tunneling in this area. Officials at the US embassy noted that, despite this, the French consultants had nevertheless approved the variation in the project which called for the relocation of the tunnel to the Awali site, without preparing for the considerable engineering problems this would entail.[111] In short, poor supervision by unqualified engineers, and negligence on the part of the French consulting group, were behind tunneling problems that should have been anticipated and prepared for. The successive collapses of the Awali tunnel severely curtailed progress on the Litani project and proved to be a turning point for officials and observers concerned about the mounting problems and costs of the endeavor.

The Awali tunnel fiasco prompted the new, post-civil war administration of President Fuad Chehab to establish an investigative commission with extensive powers to assess the entire Litani project and its management to date, which published a voluminous 400-page report on its findings in the summer of 1960. The report enumerated a litany of failures in the planning, management and supervision of the project, and found the French consultants, GFL, and the senior administrators of the ONL, including ONL Chair Selim Lahoud and General Manager Ibrahim Bisri, to have been guilty of incompetence. There were also numerous allegations of bribery of top ONL officials, which the report claimed to substantiate, and during the course of the official investigation the GFL, the Italian contractors Astaldi, and other foreign firms connected to the project had been locked out of

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[109] G.A. Hathaway to A.D. Spottswood, "Litani River Project, Lebanon," 1–2.
[110] L. Louvet to Rucinski, "Lebanon - Litani River Project" June 22, 1960, Administration Vol. V, Litani Power and Irrigation Project, Lebanon - Loan 0129, P005324, Archives of the World Bank Group, Washington, DC.
[111] U.S. Embassy Beirut to Dept. of State, "The Litani River Authority Development Project" April 12, 1960, Box 51, Classified General Records 1936-1961, U.S. Embassy, Beirut, Lebanon, Records of the Foreign Service Posts of the Dept. of State (Record Group 84), National Archives at College Park, MD.

their offices in Beirut, allegedly to prevent tampering with official documents.[112] Two days before the general election in July 1960, in which Selim Lahoud was running for a seat in parliament, indictments were handed down against him, as well as against representatives of the GFL and the Italian contractors, for bribe-taking, corruption and misuse of public funds. For its part, the Italian contractors were convinced the judicial campaign against Lahoud, the consultants, and themselves was part of the ongoing vendetta against representatives of the Sham'un regime ousted as a result of the civil war in 1958, and in which Lahoud had featured prominently.[113] The Italians alleged extensive political interference in the judicial process which, despite what they considered to be a paucity of evidence, continued to pursue charges against the three individuals for several months, though apparently without ultimate success.[114]

The main outcomes of the official investigation into the Litani project were, firstly, the replacement of Lahoud and his chief lieutenant Bisri, and the appointment of Henri Naccache as the new ONL chair, and, secondly, the passage of a new government decree imposing significant new limits on the freedom of action of autonomous government agencies such as the ONL. The new law, Decree 150 passed on July 4th 1959, required that all autonomous agencies be placed under the trusteeship of a relevant ministry (the Ministry of Public Works in the case of the ONL), and that an official of that ministry should be placed on the agency's governing board. Additionally, the law required that the Ministry of Finance should also have extensive oversight over the formerly autonomous agencies, as well as requiring the agencies governing boards to meet regularly and accurately record the attendance and voting patterns of members.[115] In short, the new legislation reconfigured the relationship between the ONL and the rest of the government bureaucracy, ostensibly in the name of increasing transparency and accountability, in the context of growing concern over the fate of the Litani project.

In reality, given the fact that Lahoud was a key political figure, a parliamentary deputy, cabinet minister and confidant of President Kamil Sham'un, it is difficult to maintain the argument that the ONL, prior to the passage of Decree 150, had been somehow operating independently of the main centers of political power in the country, or keeping its decisions and practices hidden from the rest of the government. It is perhaps more useful to see Decree 150, at least as it relates to the ONL, in the context of the efforts of President Chehab

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[112] M. Piccagli, "Lebanon - Litani Project: Report on End-Use Visit by M. Piccagli, May 1-5, 1960," 4; U.S. Embassy Beirut to Dept. of State, Airgam No. 155 (June 17, 1960), Box 51, Classified General Records 1936-1961, U.S. Embassy, Beirut, Lebanon, Records of the Foreign Service Posts of the Dept. of State (Record Group 84), National Archives at College Park, MD.

[113] Graziadei, memo enclosed with letter from Miller to Rucinski of July 4, 1961 (May 22, 1961), Administration Vol. VII, Litani Power and Irrigation Project, Lebanon - Loan 0129, P005324, Archives of the World Bank Group, Washington, DC.

[114] Ibid.

[115] Louvet to Squire and Stevenson, "Lebanon - Litani River Authority" May 19, 1960, Administration Vol. V, Litani Power and Irrigation Project, Lebanon - Loan 0129, P005324, Archives of the World Bank Group, Washington, DC.

to reorganize executive power in such a way as to placate those critics who decried the inefficiencies and opacity of government under previous Lebanese presidents, whilst still ensuring the political hegemony of the presidency vis-à-vis other Lebanese political institutions. Thus, greater regulation of autonomous government agencies, including ostensibly more transparent decision-making processes and greater involvement of professional bureaucrats from the main government ministries in the affairs of those agencies, were all part of the policy of explaining the bureaucratic ills of the past by reference to the failure to build a fully modern and truly efficient civil service. More specifically, with relation to the Litani project, Decree 150 was part of the policy of connecting all the problems the project had encountered to Sham'un's government, and the corrupt and inept political decisions of that regime, rather than directing attention to the inherent problems of the project itself.

In the aftermath of the various construction-related and administrative calamities that befell the project in 1959 and 1960, the previous engineering consultants, GFL, were dismissed and a lawsuit was initiated against them for damages resulting from incompetent and negligent practices. In their place, the French utility company Electricite de France (EdF) were retained as new consultants for the project and proceeded to institute a thorough review of the project thus far in order to make recommendations as to whether the project should be completed and, if so, in what manner.[116] Various experts were brought in to advise on the tunneling problems encountered, and in combination with the recommendations of the EdF survey, work was eventually resumed on the Awali Tunnel. With respect to the other major site of construction problems, the main dam at Karaoun, EDF concluded that the previously adopted design was unsafe and unworkable, and should be modified in favor of a mixed rock-fill/multiple-arch type.[117] After some uncertainty, it was decided that it would in fact be preferable for all the construction work on the dam done up to that point to be demolished and a completely new, purely rock-fill structure put in place instead. The first part of the project to be completed was the Markabi power plant, which was put into operational use by January of 1962, and which one IBRD staff member referred to as "a hands-down winner of an award for worst-looking installation of its kind."[118]

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[116] M. Piccagli to A.D. Spottswood, "End-Use Report, Lebanon - Litani Project, Loan 129 LE" May 23, 1961, Administration Vol. VI, Litani Power and Irrigation Project, Lebanon - Loan 0129, P005324, Archives of the World Bank Group, Washington, DC; Marcel Mary, "Hydroelectric Development of Litani River" (translated report, August 4, 1960), Administration Vol. VI, Litani Power and Irrigation Project, Lebanon - Loan 0129, P005324, Archives of the World Bank Group, Washington, DC.

[117] M. Piccagli to files, "Litani Project - Lebanon," 1.

[118] M. Piccagli to A.D. Spottswood, "End-Use Report on Litani Project, Lebanon" June 25, 1962, Administration Vol. VII, Litani Power and Irrigation Project, Lebanon - Loan 0129, P005324, Archives of the World Bank Group, Washington, DC, p3. The ONL was increasingly desperate to have something concrete to show critics of the project, so efforts were made to hurriedly complete the Markabi power plant as quickly as possible.

Major works on the other aspects of the project were completed by 1965, at a cost considerably higher than previously projected. Although an exact analysis is complicated by the many changes and revisions in the project, the ONL had estimated in 1956 that the total costs of the project, including irrigation of the Saida-Beirut coastal plain and the Biqa' Valley area, would be around LL172 million, roughly equivalent to $53.75 million at contemporary exchange rates.[119] In fact, by 1968 the ONL were reporting total expenditures on the project thus far at around LL261.5 million ($81.7 million), with other components, mainly irrigation works which were yet to be completed, costing an additional LL240 million ($75 million).[120] The project was thus vastly more costly than originally conceived, and had taken far longer to complete, even in it's heavily circumscribed form. Furthermore, as the next section will show, the key elements of the original conception of the project, a cheap and efficient irrigation system alongside low-cost, plentiful hydroelectricity, were frustrated by the prevailing political and economic milieu of post-independence Lebanon, rendering the project a very limited success at best.

Aftermath

As detailed above, the Litani project rapidly ran into a series of major problems and setbacks largely as a result of the poor oversight and incompetent management that should properly be seen as consequences of the larger political and economic context in which the project was being undertaken. The wholesale rejection of any kind of 'statism' and the enthusiastic embrace of a thoroughgoing economic liberalism by the Lebanese ruling class meant that the kind of endeavor that the Litani project represented, namely an ambitious development project requiring careful planning and extensive state intervention to ensure success, was unlikely to enjoy a happy outcome. The neglect of basic state institutions, the denigration of public finance and administration, especially in the economic arena, and the championing of private sector interests produced an environment in which corruption, mismanagement and shortsighted decision-making could flourish. Instead of a supportive network of state institutions, staffed by appropriately trained, and fairly remunerated, employees, that could have worked in conjunction with qualified outside experts as needed to monitor and support the project to minimize the risks of mistakes and excessive delays, something close to the opposite of this prevailed. The ONL, for example, continued to be inadequately staffed by undertrained personnel and governed by individuals with multiple commitments and little inclination to devote themselves full-time to the country's biggest

[119] "Brief Resume of a Letter in French from the Litani River Authority Dated June 29, 1956" (enclosure to memo from V.E. Bolis to Working Party, July 5, 1956), Administration Vol. I, Litani Power and Irrigation Project, Lebanon - Loan 0129, P005324, Archives of the World Bank Group, Washington, DC, p3.
[120] Abboud, "The Litani Project," 149–150.

development project[121], while relevant government ministries, such as Public Works and Planning, lacked trained staffed and adequate funding to play effective roles in such a major undertaking. For the IBRD, the US diplomatic personnel, and other foreign observers, all of this was an inevitable consequence of Lebanon's status as a culturally and economically backward and under-developed country, with a national psyche ill-suited to modern, efficient planning and development. In reality, it was the likely outcome of paying lip service to state-led development in a political and economic context that thoroughly rejected any real role for the public sector in the economy and feared and resisted any encroachment on the absolute hegemony of the private sector.

Two aspects of the operation of the final project, as it came into being following the completion of major construction work in 1965, highlighted the discord between the official rhetoric about the Litani development scheme and the stark realities of the political and economic context in which the project was situated. The first was the problems associated with the irrigation element of the project, which was supposed to be a major component of the overall Litani development plan, but which was never in fact completed as originally planned, whilst the second was the difficulties experienced by the ONL in trying to sell the power generated by Litani facilities. From the beginning there had been a lack of clarity about whether the Litani project was primarily a power-generation project or whether it was essentially an irrigation project with a power-generation component, though the negotiations with the IBRD and the loan agreement signed between the bank and the ONL made it clear that the project was supposed to be primarily about generating cheap, reliable electricity, and the loan was only intended to cover a small part of the total irrigation works planned.[122] At the same time, the ONL had made it clear that the complete Litani project (i.e. including those elements of the development plan for the Litani River that the IBRD had not agreed to fund) would include a significant irrigation component, potentially bringing irrigation to tens of thousands of hectares. Given the finite amount of water flowing through the Litani river basin, strategic decisions would have to be made in order to balance the needs of the hydroelectric power plants with those of the projected irrigation canal system. Again, the agreement with the IBRD made it clear that power generation would be the centerpiece of the project, but, as the project was increasingly delayed, and the need for new power generation facilities, coupled with the unregulated nature of the Lebanese energy market, resulted in an array of new electricity plants by the time the Litani power stations became active, there were renewed calls for irrigation needs to be given priority.

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[121] Henri Naccache, Salim Lahoud's replacement as Chair of the ONL, for instance, also headed up a major national airline, Air Liban, and soon after being appointed to the ONL, repeatedly stated his intention to quit the ONL post as soon as possible. See M. Piccagli to A.D. Spottswood, "End-Use Report, Lebanon - Litani Project, Loan 129 LE," 7.

[122] The IBRD had agreed to fund only the foreign exchange component of the Saida-Beirut Irrigation unit, which amounted to around $160,000 out of the total loan of $27.17 million. See G.H. Bacon, "Notes on the Litani River Project, September 1956" October 26, 1956, Administration Vol. II, Litani Power and Irrigation Project, Lebanon - Loan 0129, P005324, Archives of the World Bank Group, Washington, DC, p5.

The Director-General of the ONL, Salah Helwani, portrayed it is a ‘natural’ evolution in a project of this kind, writing in the French daily *Le Monde* in October 1967 that “the actual utilization of waters for power production will give way to irrigation progressively with the development of a better allocation of resources in the country.”[123] Furthermore, there was a need for the ONL to recoup the costs of constructing the Litani project, which had soared far beyond projections as a result of delays and setbacks. In fact, Helwani’s remarks are most usefully seen within the context of the struggle to sell hydroelectric power to the new public entity charged with distribution of electricity, Electricite du Liban (EdL). Under the terms of the agreement with the IBRD, EdL was compelled to purchase all the electricity the ONL could produce at a fixed rate of 5 piasters per kWh. However, EdL protested that this rate was too high and that existing hydroelectric plants and its own thermal plants could produce electricity at a much cheaper price, prompting the government to agree to a deal where it would effectively subsidize EdL purchases from ONL by 1 piaster per kWh.[124]

It was soon clear therefore that attempts to recoup costs solely through electricity sales would require a rate that was uneconomical and which EdL would be unwilling to pay. Recouping costs through the utilization and sale of water for irrigation purposes offered a solution to this problem.[125] This prompted renewed focus on the irrigation component of the Litani project which, up to this point, had been largely neglected, and most of the plans drawn up for utilizing Litani waters for new irrigation schemes in the Biqa’ Valley, the Saida-Beirut coastal plain and elsewhere had yet to progress beyond the planning stage. In theory these schemes were going to provide the impetus for an agricultural ‘revolution’ of sorts in Lebanon, by allowing for a great expansion of irrigated agricultural land and the provision of affordable water for irrigation purposes. Areas such as the Saida-Beirut coastal plain in particular offered the promise of substantial increases in agricultural revenue in soil that was suitable for producing valuable cash crops such as citrus fruits, bananas, figs, grapes, and stone fruits.[126]

In reality, irrigation schemes in the context of a highly unregulated, liberal economic environment such as Lebanon often functioned more as a mechanism for accelerating the commercialization of agriculture at the expense of small peasants and to the benefit of wealthy investors and speculators. At the time of the Litani projects inception, there was only one official government irrigation project, in the Kasmieh region on the coast, and its

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[123] Quoted in Abboud, “The Litani Project,” 134.
[124] Helwani to Piccagli, letter (November 30, 1965), Administration Vol. VIII, Litani Power and Irrigation Project, Lebanon - Loan 0129, P005324, Archives of the World Bank Group, Washington, DC, Enclosure 1 “Extracts from Minutes of Council of Ministers” p1.
[125] Returns from sales of water via the irrigation system depended greatly on a number of factors, in particular the types of crops grown on the land and the agricultural revenue that could be generated by the land to be irrigated. Nevertheless, returns per cubic meter of water used were probably much higher for irrigation use than power generation. See Abboud, “The Litani Project,” 139–42.
[126] G.H. Bacon, “Notes on the Litani River Project, September 1956,” 2.

outcome is instructive in highlighting how irrigation extension schemes worked in practice in Lebanon. The project was intended to be part of a larger government scheme to improve the situation in rural Lebanon, which had largely been excluded from the post-independence prosperity that was predominantly confined to the wealthier residents of Beirut. Estimates of rural per capita income varied, in large part because of the paucity of official data, but they were generally agreed to be a small fraction of the national average, especially in the most depressed areas in the south and in the Biqa' Valley in the east.[127] This reality prompted a steady exodus of the rural population to the main urban centers, especially Beirut, in search of better economic prospects. Schemes like the Kasmieh project were designed to improve the agricultural situation, stabilize the rural economy and lift the incomes and livelihoods of the rural population.

In reality, the Kasmieh project and the supply of cheap water for irrigation served to drive up land prices to astounding levels and prompted the rapid transfer of land from poorer farmers to rich agricultural investors. Whereas land prices in the Kasmieh area were around LL2,000-LL3,000 per hectare prior to the introduction of the new irrigation channels, these prices soared ten-fold to more than LL20,000/hectare afterwards.[128] The Kasmieh project utilized the waters of the Litani river and was supposed to include a main distribution canal, with an appropriate network of secondary canals to supply a greater area of land. In fact the project was never completed as planned, according to relevant personnel at the Ministry of Public Works because of a lack of funds, and only the main irrigation canal was completed.[129] What this meant in practice was that land immediately adjacent to the canal, and which could therefore readily access the cheap water, was quickly acquired by wealthy investors, who then charged high rates to poorer farmers further away to allow them to use secondary distribution systems to transit water to their lands.[130] This arrangement led to a wide divergence between the cost of water from the public irrigation system, which had been set at an extremely low rate ostensibly in order to protect poor peasants, and the private rates charged to those farmers who lacked direct access to the main canal. The control of primary access to the main water canals likely facilitated the more rapid transfer of land from poor to rich as the former, unable to pay for adequate irrigation for their land, were increasingly marginalized in the agricultural market, and lacked the capital to benefit from the greater revenues accruing to those who

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[127] A study from 1957, for example, found average per capita income to be LL 2,410 in Beirut, compared with LL 617 in the Biqa' Valley region, and LL 453 in south Lebanon. See Doxiadis Associates, Government of Lebanon, and United States Operation Mission/Lebanon, "First Outline of the Lebanon National Housing Program," 5.
[128] G.H. Bacon, "Notes on the Litani River Project, September 1956," 2.
[129] Ibid., 10. IBRD staff member G.H Bacon noted the 'alleged' lack of funds as the reason given for the failure to complete the project as planned, and whilst this could very well be true, it is also important to note that the government was able to find far larger sums of money with relative ease for projects like the Litani scheme, suggesting that funds could be found for projects that had political backing.
[130]Ibid. It is plausible to imagine that the original decision on where to place the primary canal was itself subject to influence by richer landowners who had better political connections.

could grow valuable cash crops. This overall process, of a publicly-funded and managed irrigation project facilitating the greater commercialization of land, was aided by the poor level of management provided by the public agencies responsible for irrigation works. As noted earlier, relevant government ministries were poorly staffed, lacking in adequate trained personnel and under-funded, and in a similar vein, the various agencies tasked with the management of water resources also suffered from lack of trained personnel, poorly defined and overlapping jurisdictions, and inadequate levels of funding.[131] In short, the institutional environment in which the Kasmieh irrigation project, and potential future projects of a similar nature, were situated was such that private sector interests and needs, particularly those with the greatest access to capital and political influence, were privileged at the expense of the greater public good, a trend which, as noted earlier, was not uncommon to public sector development projects in Lebanon.

Despite the questionable benefits that flowed to local cultivators from public irrigation projects, the IBRD, in keeping with the 'modernization' paradigm that guided its operations, and which placed great weight on policies and measures which accelerated capitalist development, considered the extension of commercialization in agriculture as a positive development, with little concern for social costs, even as they lamented the inefficiency and corruption that came with it.[132] G.H. Bacon, dispatched to Lebanon in 1956 by the bank to report on irrigation projects in the country, decried what he saw as the administrative failures that allowed for the grossly unequal distribution of water from public irrigation projects, whilst at the same time reflecting that "agricultural development in the Lebanon enjoys the stimulus of intelligent and progressive private enterprise which gives a valuable lead to the less educated peasantry."[133] The IBRD were not, therefore, automatically concerned with the potential social upheaval that would follow from the development and extension of irrigation projects within the context of the Lebanese economic model, and their primary interest, with respect to the plans that emerged in the mid-1960s to begin using more of the Litani waters for irrigation purposes, was with the impact this would have on the overall profitability of the project and the likelihood that the bank would get its money back in a timely fashion. As it happened, one of the major proposals for diverting Litani waters for irrigation purposes, put forward by the politician and major landowner of south Lebanon Kamal al-Assad in 1966 during his term as Minister for Power and Water, had a serious impact on the Litani project's ability to deliver hydroelectric power, and at a time when the ONL was already struggling to compete as an electricity supplier within the Lebanese energy market.

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[131] Ibid., 4–5; Muin Baasiri and John Ryan, *Irrigation in Lebanon: Research, Practices, and Potential* (Beirut, Lebanon: National Council for Scientific Research and American University of Beirut, 1986), 104–5.
[132] G.H. Bacon, "Notes on the Litani River Project, September 1956," 10.
[133] Ibid., 2.

Assad's proposal called for the diversion of at least 105 million cubic meters (MCM) of water, around a third of the Litani's flow, above the first hydroelectric power plant, the Markabi station, for use in irrigating 15,000 hectares of land in Assad's constituency in south Lebanon.[134] Despite the objections of ONL General Manager Salah Helwani, who favored an alternative scheme that would divert water at a lower elevation and thus not interfere with the operation of the Markabi power station, the Council of Ministers approved Assad's plan in October 1966, prompting Helwani's resignation in protest. In the words of one Lebanese periodical, the government was effectively agreeing to sacrifice part of the Litani hydroelectric project in order to acquiesce to Assad's desire to deliver an irrigation scheme to his constituents.[135] The plan was never actually put into practice, in part because of the rapid breakdown of the Lebanese state over the course of the subsequent decade, though undoubtedly also because of highly politicized nature of the plan, and Assad's proposal reveals much about the broader political context in which the Litani project was situated and in which it was forced to operate.

First and foremost the Assad proposal highlighted how immediate political considerations could triumph over longer-term development planning in post-independence Lebanon. It is noteworthy that a project that had absorbed a substantial amount of public funds, including the contracting of virtually the only significant quantity of external public debt the Lebanese state had at that time, as well as the time and energy it had taken to guide the project through the various setbacks and crises that had befallen it, could be so readily placed in jeopardy when political circumstances changed. This episode supports the contention that for the Lebanese ruling class projects like the Litani development scheme were viewed according to their capacity to reinforce, rather than challenge, the dominant political economy of the country, instead of by any inherent value they might have. Thus, as will be touched on more below, the abundance of existing private suppliers in the Lebanese energy market led the government to prioritize their interests over those of the Litani project, and to fail to support the ONL in its efforts to effectively and efficiently produce and distribute hydroelectric power. Similarly, the ability of the Litani infrastructure to meet the political needs of key regime elites such as Assad warranted what was in effect a radical change in the conception of the project, from a primarily power-generation project to an irrigation project, regardless of the technical and economic merits of doing so.

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[134]Maurice Bart to Working Party, "Lebanon: Litani Project" December 2, 1966, Administration Vol. IX, Litani Power and Irrigation Project, Lebanon - Loan 0129, P005324, Archives of the World Bank Group, Washington, DC. IBRD staff questioned the technical details of the proposal, suggesting that the amount of water diverted from the Litani would have to be much higher if the plan truly was to irrigate 15,000 hectares.

[135] Maurice Bart to Mario Piccagli, "Lebanon: Litani" October 24, 1966, Administration Vol. IX, Litani Power and Irrigation Project, Lebanon - Loan 0129, P005324, Archives of the World Bank Group, Washington, DC, Enclosed clipping from Revue de l'Economie Libanaise.

It was no accident that Assad's proposal was put forward at this point in Lebanon's postcolonial history, nor is it surprising that the Council of Ministers so readily acceded to it. The proposal came in the particular context of the multiple crises that were buffeting the Lebanese system, and which were particularly threatening to entrenched rural elites such as Assad.[136] An extended, chronic crisis had been unfolding in the agricultural sector for decades and was growing particularly acute by the 1960s, and Assad's predominantly rural constituency in south Lebanon was particularly badly affected. The accelerating, uneven process of integration of Lebanese agriculture into the global capitalist economy had provoked severe hardships for the vast majority of Lebanon's rural population and had prompted a mass exodus of impoverished rural cultivators to the main urban centers, and especially to Beirut, whilst leaving most of those who could not relocate mired in dire poverty. This situation was increasingly leading to discontent and unrest among the rural population, and threatened to upset the hold that longstanding political elites like Assad had over their constituencies. In the case of south Lebanon, an additional source of major instability that was starting to emerge in this period was the conflict with Israel, Lebanon's powerful and increasingly aggressive neighbor to the south. During the late-1960s and early-1970s, south Lebanon was increasingly a battleground between armed wing of the Palestinian Resistance Movement (PRM), known as the fida'yeen, and the Israeli military, and the devastating air and ground attacks launched by Israel severely impacted the lives of Lebanese residents of the south and further prompted the exodus north to the suburbs of Beirut.

To add to the concerns of elites like Assad, the 1960s also witnessed the emergence of new political forces, especially in the Shia Muslim community, from which most of Assad's constituents were drawn and to which he himself belonged. These populist forces, led in the pre-civil war period by Imam Musa al-Sadr's Movement of the Dispossessed, were a powerful challenge to the legitimacy and credibility of older elites, like Assad, who claimed leadership of the Shia community, and their rapid growth in numbers and strength was in part a reflection of increasing discontent with the traditional leadership.[137] It was therefore imperative for Assad to take measures to shore-up his own position in the face of these powerful challenges, and a major public works project, such as his proposed irrigation scheme, offered him the chance to enhance his own legitimacy and buy renewed allegiance from key members of his support base. For the Council of Ministers as a whole, and the ruling class more broadly, figures like Assad represented a bulwark against the rise of new populist forces that, potentially at least, presented a systemic challenge to their hegemony, and this undoubtedly provided some of the impetus behind their approval of Assad's irrigation scheme.

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[136] For more on the multiple dimensions of this crisis, see Traboulsi, *A History of Modern Lebanon*, chap. 10; Nasr, "Backdrop to Civil War."
[137] Salim Nasr, "Roots of the Shi'i Movement," *MERIP Reports*, no. 133 (1985): 10–16.

In addition to the impact of political pressures on the Litani project, and particularly its hydroelectric generation component, there were, as mentioned, pressures from key private business interests which were expressed in the struggle by the ONL to find a purchaser for its electricity output. In the first full year following the completion of the project, 1966, annual rainfall was significantly below average and actual sale of electricity from Litani power plants was only slightly below projected levels, with 292.5 million kWh sold against a projection of 326 million kWh.[138] However, in subsequent years, when annual rainfall levels returned to normal, sales began to fall substantially below the possible output of the Litani plants, as Table 2.1 illustrates below. In 1967 and 1968, actual sales of electricity were only around 46% and 54% of projected sales respectively, despite the requirement laid out in the loan agreement with the IBRD for the government to ensure that the responsible distribution agencies purchased all available electricity from the Litani project. EdL, the new national electricity agency, had refused from the outset to pay the rates for Litani electricity laid out in the IBRD loan agreement, claiming they were too high and that cheaper electricity could be obtained from other, private providers, or from EdL's own thermal power plants. Even after the government agreed to effectively subsidize EdL purchases from ONL in 1965, however, Litani electricity remained significantly under-utilized because EdL claimed that it was contractually bound to prioritize pre-existing agreements with other, private, providers, at least until those agreements expired in 1969, even though EdL in fact chose to renew some of those contracts prior to that time.[139] In August 1967, the government announced that it was no longer willing to subsidize Litani electricity and that the ONL needed to find a way to lower its tariffs, despite protestations from the latter that this would threaten its revenue base and its ability to cover its costs, including servicing of its debts. Ongoing political crises impeded efforts to reach a solution, but a provisional tariff was agreed upon in 1968.[140] Nevertheless, hydroelectric power, of which the Litani plants represented by far the largest share, continued to decline precipitously as a proportion of overall electricity generated in Lebanon, and from a high of 79% in the late-1960s, hydroelectric power comprised only 42% of total electricity output by 1974.[141]

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[138] C. de Beaufort to files, "Lebanon - Loan 129-LE" July 21, 1967, Administration Vol. IX, Litani Power and Irrigation Project, Lebanon - Loan 0129, P005324, Archives of the World Bank Group, Washington, DC. Estimates of total possible production were, however, higher, at 381 million kWh. See Abboud, "The Litani Project," 135.

[139] C. de Beaufort to A. David Knox, "Lebanon - Loan 129 LE Litani River Authority (LRA): Review of Power Rate, Full Report" March 11, 1968, Administration Vol. IX, Litani Power and Irrigation Project, Lebanon - Loan 0129, P005324, Archives of the World Bank Group, Washington, DC, p4.

[140] Ibid.; R. Venkateswaran to files, "Lebanon - Meeting on Litani Power 129-LE Rate Structure" November 20, 1968, Administration Vol. IX, Litani Power and Irrigation Project, Lebanon - Loan 0129, P005324, Archives of the World Bank Group, Washington, DC.

[141] Ahmad Houri, "Prospects and Challenges of Using Hydropower for Electricity Generation in Lebanon," *RENE Renewable Energy* 31, no. 11 (2006): 1687. Following the disruption and destruction of the civil war, this figure had declined to less than 10% by the 1990s.

What is significant about this episode, as with Assad's proposed irrigation scheme, is that it further illustrates the way in which the Litani project was hostage to the larger forces that shaped the political economy of postcolonial Lebanon. The ONL found itself struggling to sell its electricity because the government had refused to implement adequate planning and regulation of the domestic energy market leading to a glut of private electricity suppliers competing with the Litani project, whilst mismanagement and poor oversight of the project itself, in large part a product of the delegitimizing of public sector involvement in the economy, had resulted in spiraling costs which necessitated uncompetitive electricity tariffs. In short, the extreme unwillingness of successive Lebanese governments to take any steps that would in any way threaten the hegemony of the private sector worked to undermine the Litani project's utility in national development terms and ensured that the construction and operation of the project primarily benefited those wealthy elites who dominated the political sphere. A project which had the potential, and the stated aim, to supply cheap, renewable energy in abundance, alongside the provision of water for irrigation projects that, if planned and executed from an alternative economic viewpoint, could have arrested the crisis of rural Lebanon, instead achieved none of these outcomes and served only to reinforce the existing status quo, and ultimately at great expense to the public purse.

Table 2.1 Actual & Potential Sales of Electricity from the Litani Project, 1966-69

Year	Actual Sales of Electricity (million kWh)	Potential Total Output (million kWh)	Sales as % of Potential Output
1966	292.4	381	77%
1967	284.7	616	46%
1968	378	700	54%
1969	470	750	63%

Source: Abboud, "The Litani Project," 135–6.

Conclusion

With the onset of the civil war of 1975, the political, social and economic dynamics that had shaped the first decades of Lebanese independence began to unravel, and were replaced instead by a political economy shaped by enduring civil conflict.[142] As a consequence of the destruction, disruption, and dislocations produced by the war, much of the national infrastructure developed in the period prior to its onset was destroyed or rendered inoperable, in a sense marking an end to a first phase of economic development in postcolonial Lebanon. What this chapter has tried to demonstrate, however, is the limited and selective nature of that development, and the way in which government economic policy was shaped above all by a desire to protect the hegemonic position of private capital, even at the expense of both the interests of the vast majority of the population and the ultimate political and social stability of the Lebanese polity. The priorities for the Lebanese government remained the privileging of the interests of local capital over the interests of any other section of Lebanese society, and the neutralizing of any threat to those interests, coupled with the construction and maintenance of an environment conducive to foreign capital. This translated in development terms into a preference for investment in projects that supported the economic status quo, such as transport (particularly roads, ports and the Beirut airport) and communications infrastructure, rather than investments in schools, hospitals, clinics and other social services, especially in rural Lebanon. Thus, by the end of the period under study the substantial wealth that had flowed through the country in the preceding decades had generally not been matched by commensurate improvements in basic social indicators such as adult literacy, improvements in income levels, housing standards or a reduction in the level of income inequality. Instead, the country was plagued by un- and under-employment, chronic housing shortages and urban overcrowding, coupled with a lack of basic infrastructure like clean water, sanitation and reliable electricity, especially in many of the new urban districts and in the capital.

By looking at the example of the Litani development project, the largest scheme of its kind attempted in Lebanon, and at the time of its inception the only IBRD-funded project in the Arab World, it is possible to see how the dominant political economy of the country shaped the outcome of development projects, and defined the scope of public sector involvement in the economy. As a result of chronic mismanagement, poor planning and oversight, inadequate staffing and funding for relevant government agencies, and a general lack of official interest in the effective guiding of public works undertakings, the Litani project experienced numerous serious crises and setbacks, and the final result was long-delayed, vastly over-budget and a pale shadow of what had originally been promised. The

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[142] See for example, Elizabeth Picard, "The Political Economy of Civil War in Lebanon," in *War, Institutions, and Social Change in the Middle East* (Berkeley: University of California Press, 2000). .

prospect of reliable, cheap, renewable energy, with an efficient and effective new irrigation infrastructure to revitalize the fortunes of a struggling rural economy, all failed to materialize in any significant way. For a short time Litani power plants supplied significant proportions of national electricity needs, though always far below what was possible, but this soon changed as private energy concerns continued to dominate and as a result of the state's continued failed to take measures to effectively regulate the energy market and give priority to the products of the Litani project. From the narrow point of view of the Lebanese ruling class, the project was successful in providing profitable opportunities for local contractors and foreign engineering and consultancy firms, as part of the overall strategy of facilitating foreign capital's penetration of both the Lebanese and wider regional markets, without challenging the dominant political economy of the country or upsetting the power of the commercial bourgeoisie. But, from the broader perspective of Lebanese society as a whole, taking into consideration what might have been possible had the immense resources deployed to complete the Litani project been utilized in a different fashion, the project has to be considered a failure as well as an indictment of the Lebanese system as a whole.

Chapter Three: Too Big to Save – Intra Bank and the Crisis of Lebanese Banking

Introduction

This chapter explores a crisis that developed during the fall of 1966 when Lebanon's largest bank, Intra Bank, was forced to suspend payments and close its doors. The first section of the chapter provides an overview of the Lebanese banking sector, the sources of its remarkable growth during the first two decades after World War Two, and the limited efforts to reconfigure the sector, and introduce a measure of regulation, that took place in the early 1960s. The following section details the rise and fall of Intra Bank itself, its appearance on the Lebanese scene in 1951, the progeny of a Palestinian refugee, Yusuf Beidas, and its rise to hegemonic status among Lebanese banks, briefly becoming the largest financial institution in the Middle East. This section then proceeds to outline the events of October 1966, explores the reasons for Intra's sudden collapse, as well as the ultimate resolution of the crisis. The final part of the chapter is a discussion of the consequences of the crisis in the financial sphere, for the broader economy and on the political level. Ultimately the chapter argues that the Intra crisis was both a part, and a catalyst, of a deeper, systemic crisis of the Lebanese banking system, one which had been building for some time. Intra's collapse, and the subsequent political fight over both what to do with Intra and how to save the banking system from complete collapse, were catalysts for deeper changes in the economy and politics of postcolonial Lebanon, changes that ultimately set the stage for the social uprising that ended the postcolonial status quo in the spring of 1975.

An Overview of Lebanese Banking, 1943-66

As discussed in Chapter One, the banking sector in Lebanon was a key component of the postcolonial economy, playing a central role in the development of the 'appendage' economy, which saw Lebanon focus on providing financial and trade services to other Middle Eastern states, at the expense of the domestic productive sectors of the economy, and finance consistently contributed between three and six percent of Net National Product (NNP) between the end of World War Two and the mid-1970s.[1] During that time the Lebanese banking sector, which prior to independence had been small, underdeveloped, and dominated by foreign interests, grew dramatically. The number of banks in the country, most of which were headquartered in Beirut, grew tenfold in the first two decades after World War Two, increasing from nine in 1945, to over ninety by 1966 (see Table 3.1

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[1] Raymond A Mallat, *The Economic Challenge: A Master Plan* (Louaize, Lebanon: Notre Dame University, 1988), 30.

below). Of the eighty-six banks operating in Lebanon in 1965, the year before the collapse of the country's largest bank, Intra Bank, nineteen were foreign (of which five were based in other Arab states) and ten were 'mixed' Lebanese-foreign institutions, in which a significant share of the stock was controlled by foreign interests.[2] Lebanon's banks handled a growing volume of deposits that flowed into the country from a variety of sources, in particular 'flight capital', funds moved by wealthy individuals to Beirut to avoid restrictive measures in their home countries, and above all oil rents in the form of petrodollars. As was shown in Chapter One, these funds reached significant levels by the 1970s, growing considerably faster than the overall economy.

The spectacular growth of banking in Lebanon was due to a number of factors. Firstly, financial institutions based in Lebanon benefitted from the lack of regulation of any kind, at least until the mid-1960s. There were no restrictions on opening a bank, on the organization or management of banks, on the use to which depositors funds were put, and there were no mandated reserve requirements or restrictions on the types of business or speculative activities that banks could engage in. The only piece of legislation passed dealing specifically with financial institutions was the Banking Secrecy Act, passed in 1956 and brought into force in 1957, which made it an offense to divulge account information to any party, including judicial authorities, without the express, written permission of the account holder.[3] The passage of banking secrecy requirements, coupled with the general lack of restrictions on banking activity, allowed Beirut to effectively serve as a form of 'off-shore' banking haven for the Middle East region, and for Beirut banks to offer a safe location for funds seeking to avoid the attention of taxation and judicial authorities in other states. In such circumstances, it is difficult to determine the precise scope and nature of the funds that flowed into Lebanon, especially since government statistics were haphazardly collected and generally of poor quality. As discussed previously, there is evidence that, in addition to flight capital and petrodollars, Beirut banks also handled significant funds derived from the proceeds of the international narcotics trade, in which Lebanon played an integral part.[4]

In addition to the lack of banking regulation, and the institution of a strict banking secrecy law, the Lebanese financial sector benefitted from the general laissez-faire policies of the Lebanese state, which called for the rapid dismantling of exchange and capital

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[2] Nizar Mohammad Ali Sakhnini, "Intra Crisis and the Development of the Lebanese Banking System" (MBA Thesis, American University of Beirut, 1970), 8. Sakhnini's dissertation has provided valuable background information for this chapter, but, as an MBA thesis, is primarily focused with an assessment of the Lebanese banking system from a business administration perspective, rather than a focus on the broader political economy in which that system was situated, as is the focus of this chapter.

[3] U.S. Embassy Beirut to Dept. of State, "Summary of Economic Developments in Lebanon during 1957" February 20, 1958, 9, 883a.00, Box 4924, Central Decimal Files 1955-59, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.

[4] Marshall, *The Lebanese Connection*, chap. 3.

controls in the immediate aftermath of the Second World War. The absence of exchange restrictions allowed Beirut to quickly become the premier center for the financing of regional trade activity, and for the acquisition of foreign currency. The absence of capital controls allowed funds to move into and out of Beirut easily, and Lebanese financiers, in return for a share of the profits, played an important role in helping to channel capital out of the region towards money markets in Europe and North America.

The lack of banking regulation began to come into question, to a limited extent, in the early 1960s. The issue that prompted discussions over banking regulation was the impending expiration of the concession granted to the Banque de Syrie et du Liban (BSL) to act as the bank of issue, originally granted by the French colonial authorities in 1924, and renewed in 1937. This gave the French-owned BSL, and its longtime director Rene Busson, enormous power within the banking system, a situation that was viewed with growing resentment by the rest of the banking industry.[5] As the expiration of the BSL concession loomed, the government issued a decree in June 1959 authorizing the creation of a Council on Money and Credit (CMC), which was to issue recommendations on a new banking law and on the formation of a national central bank. However, the strong opposition of a number of powerful groups, including that of President Chehab himself, resulted in a decision to delay the activation of the CMC.[6] Among those opposing the establishment of the CMC, and, by extension, a decision on the creation of a new national central bank, was the BSL itself, which hoped that political paralysis on the issue would lead to its own concession being extended, as had happened upon the expiration of other colonial-era concessionary agreements.[7] Other sources of opposition included a group around the president, who were allegedly concerned that the CMC was vulnerable to political interference, and the likelihood of a genuinely independent institution emerging was therefore seen, by them, as slim, especially given how acutely aware all parties were of the power that would accrue to whomever controlled the successor to the BSL.[8] Indeed, by 1961, various powerful groups, including both British and French banking interests, were actively fighting to win a contract to operate a new Lebanese central bank.[9]

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[5] U.S. Legation Beirut to Dept. of State, "Influence of French-Controlled Banque de Syrie et du Liban in Financial System of Lebanon."

[6] U.S. Embassy Beirut to Dept. of State, "Lebanese Attitudes to the Establishment of a National Central Bank" June 1, 1961, 883a.10, Box 2796, Central Decimal Files 1960-63, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.

[7] Ibid., 2.

[8] Ibid., 3.

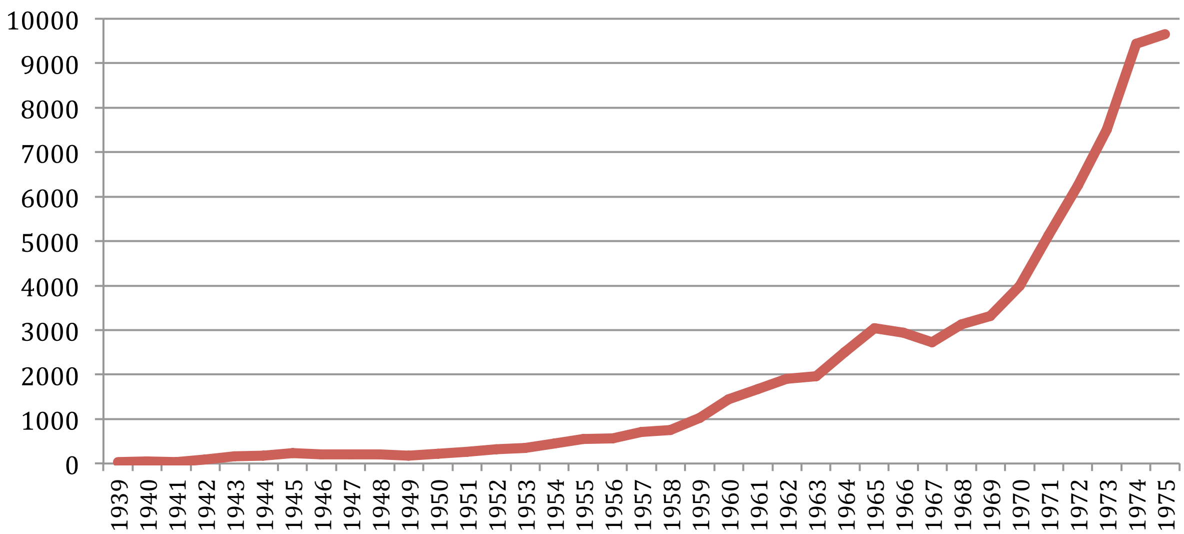
[9] See for example, U.S. Embassy Beirut to Dept. of State, "Finance: Maneuvers for Control of the Proposed Central Bank" December 12, 1961, 883a.14, Box 2796, Central Decimal Files 1960-63, General Records of the Department of State (Record Group 59), National Archives at College Park, MD; U.S. Embassy Beirut to Dept. of State, "Finance: Transmittal of Two Memoranda of Conversation on the Lebanese Central Banking Developments" December 22, 1961, 883a.00, Box 2796, Central Decimal Files 1960-63, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.

Table 3.1 Number of Banks in Lebanon, 1945-66

Year	Number of Banks
1945	9
1950	13
1953	21
1955	25
1957	29
1961	44
1963	71
1965	86
1966	93

Source: Sakhnini, *Intra Crisis and Development of the Lebanese Banking System*, 10

Fig. 3.1 Total Bank Deposits 1939-75 (millions LL)



Source: Mallat, *The Economic Challenge*, 209-11, 218-220 & 223

One thing that united banking interests in Lebanon, and was perhaps the most important single determinant of the outcome of discussions over a new central bank, was a strong desire to prevent any serious banking regulation from coming into force, and to curtail any threats to the Banking Secrecy Act. During the summer of 1961, Minister of Finance Pierre Jumayl, who was close to French banking interests, sought to circumvent the moribund CMC by signing a contract with the BSL to establish a commission to study the formation of a new central bank, but the contract was annulled by Prime Minister Rashid Karame, partly as a result of pressure from rival interests, and he instead announced that the CMC would now be activated and new banking legislation would soon be brought before parliament. In response the Lebanese Banking Association (LBA) threatened to suspend all banking operations if any new regulations were announced.[10] Karame apparently sought compromise and was able to persuade the LBA to support the formation of the CMC in return for a strong voice in the preparation of new legislation. Nevertheless, when a draft bill was proposed in early 1963, the LBA denounced it in the strongest terms, with one member arguing that,

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[10] U.S. Embassy Beirut to Dept. of State, "Finance: Maneuvers for Control of the Proposed Central Bank," 2.

> [The draft bill] grants too much power to the governor of the Central Bank, does not include representatives of [the LBA] in the Central Bank's Advisory Committee, violates the banking secrecy law, suppresses and strangles private banks, imperils individual liberty, free enterprise and the principle of free competition, constitutes unjustifiable *dirigisme*, establishes a dictatorship of the Central Bank, and is a step in the direction of a Communist regime.[11]

After further compromises with the LBA, the new bill edged closer to passage, until a new obstacle arose in the form of the Deputy Chair of the CMC, and official of the BSL, Joseph Oughourlian, who demanded a number of provisions be included in the new bill, including amendments to banking secrecy which would allow central bank officials access to basic account information.[12] Such provisions, without which effective banking regulation would be made, to say the least, much more challenging, were staunchly opposed by the rest of the CMC, which was chaired by Prime Minister Karame, as well as by the LBA who argued such measures would mean the end of foreign confidence in the Lebanese banking system. Despite attempts to build support for his amendments among Karame's political opponents, and via a press campaign, Oughourlian was defeated and the new banking bill, the Law on Money and Credit, which was passed in August 1963, contained provisions guaranteeing continuing complete banking secrecy.[13] This effectively meant that the new central bank, the Banque du Liban (BDL), which came into being on April 1st 1964, was largely reliant in the performance of its regulatory functions on the information Lebanese banks chose to provide, and the BDL thus lacked an effective independent oversight mechanism.

In reality, however, although the Law on Money and Credit granted relatively extensive powers of oversight and regulation to the BDL, continuing opposition to effective regulation from the LBA ensured that between 1963 and 1966 the BDL did little to enact the provisions of the law. One such provision, Article 76, granted the BDL the authority to ensure adequate liquidity in the banking system through mechanisms such as the setting of minimum reserve requirements, but its failure to do this was starkly illustrated by the dangerously low liquidity ratios (the ratio of cash reserves to deposits, representative of a bank's ability to meet sudden demands for withdrawals) that still plagued the banking sector on the eve of the crisis of 1966.[14] When 1966 arrived, and a systemic financial crisis loomed, the Lebanese banking system remained therefore effectively unregulated, except

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11 Quoted in U.S. Embassy Beirut to Dept. of State, "Controversy over Proposed Lebanese Banking Law" January 5, 1963, 883a.14, Box 2796, Central Decimal Files 1960-63, General Records of the Department of State (Record Group 59), National Archives at College Park, MD, p2.

12 U.S. Embassy Beirut to Dept. of State, "Controversial Banking Bill Before Council of Ministers" April 17, 1963, FN 6 LEB, Box 3439, Subject-Numeric Files 1963, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.

13 Oughourlian was recompensed by being appointed Deputy Governor of the new central bank. See U.S. Embassy Beirut to Dept. of State, "Oughourlian to Dominate Central Bank of Lebanon" September 27, 1963, FN 6 LEB, Box 3439, Subject-Numeric Files 1963, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.

14 Sakhnini, "Intra Crisis and the Development of the Lebanese Banking System," 18 & 29.

for the strict requirement to uphold banking secrecy. Thus, even the institution of an independent central bank, and the passage of special legislation governing banking activity, could do little in the face of the determined opposition of Beirut's bankers, who were fully cognizant of the fact that lack of regulation and the guarantee of secrecy were the main sources of their remarkable success. The dangers inherent in such a system were, however, thrown into sharp relief in October 1966, when the country's largest bank suddenly collapsed, and a measure of reform was thrust upon Beirut's bankers in order to save the financial sector as a whole, even as the domestic Lebanese elite was increasingly relegated to a minority position within regional banking as a consequence of the crisis.

The Rise & Fall of Intra Bank

On October 14th 1966, the Middle East's largest bank closed its doors in the wake of a run on its deposits that rapidly depleted its cash reserves. The crisis which engulfed Intra Bank, headquartered in Beirut and the progeny of the colorful Palestinian millionaire Yusuf Beidas, would soon spread to engulf the entire Lebanese banking sector. Intra Bank was regarded, up until the very moment of its demise, as a remarkable success story, a company that had apparently emerged from nothing in 1951 to become one of the most powerful forces in the Lebanese economy and a major actor on the regional and international stage. Its demise, the consequence of a complex series of factors, brought Lebanon to the brink of financial collapse, and had a profound impact on the future direction of the Lebanese economy. The Intra collapse also resulted in important political convulsions too, and the crisis of 1966 helped to set in motion events that would eventually lead to the violent breakdown of the postcolonial status quo some nine years later.

The Spectacular Rise of Intra Bank

Intra Bank was the creation of Yusuf Beidas, a Palestinian born in Acre in 1912, at the very end of Ottoman rule in the Middle East.[15] Beidas began his career in banking in the 1930s, when he was hired as a messenger at the recently-founded Arab Bank, where he was able to work his up to a managerial position, after demonstrating considerable business acumen and a capacity for developing useful business and political connections.[16]

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[15] Kamal Dib, *Warlords and Merchants: The Lebanese Business and Political Establishment* (Reading, UK: Ithaca, 2004), 103. According to some sources he was the son of Russian Orthodox missionaries who arrived in Palestine in the late 19th century. See for example, "New Mideast Money Man," *Time*, April 27, 1962.

[16] Arab Bank, currently one of the largest banks in the Middle East, was founded in May 1930 in Jerusalem, in what was then mandatory Palestine. After the destruction of Palestine in 1948, the bank's headquarters relocated to Amman, Jordan where they currently reside.

Along with hundreds of thousands of his compatriots, Beidas was forced to leave Palestine in 1948, and became a refugee in Beirut. Unlike most refugees, however, Beidas had enough capital to start his own business and he soon opened a small currency trading operation near the Port of Beirut.[17] Thanks in part to the conditions created by the outbreak of the Korean War in 1950[18], Beidas was able to amass a small fortune through his trading activities, such that by November 1951 he was able to found the International Trading Bank, or Intra Bank, with capital of around $2,000,000. Over the next decade and a half this new entrant onto the Beirut banking scene underwent a dramatic expansion to become, at its height, the largest financial institution in the Middle East. In a period of eight years between 1953 and 1961 Intra's total assets jumped from just under LL23 million to over LL480 million, while its total deposits jumped thirty-five-fold from LL11 million to LL383 million.[19] This spectacular growth continued during the first half of the 1960s, and Intra came to own a controlling stake in some of the most important economic enterprises in the country, including the national carrier, Middle East Airlines, the lucrative casino concession, Casino du Liban, the Port of Beirut Company and other financial, construction, and real estate enterprises.[20] On the eve of its collapse, Intra Bank held shares in other Lebanese and foreign enterprises worth over LL190 million, and held 40% of all bank deposits in Lebanon. It was this reality which for some time had been prompting concerns among Lebanese financiers and politicians about Intra's increasingly hegemonic position in the Lebanese economy.[21]

There were several causes of Intra's phenomenal growth during the 1950s and 1960s. Firstly, Beidas was successful at developing personal connections to potential depositors, especially wealthy residents of the Gulf states, and Kuwait and Saudi Arabia in particular, who were amassing sizable fortunes as a result of the expansion of oil production. The relative underdevelopment of the financial infrastructure in the Gulf states themselves led

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[17] Marshall, *The Lebanese Connection*, 50–51.

[18] The Korean War was a boon to Lebanese traders and financiers as worldwide conditions of relative scarcity allowed them to engage in hoarding and price gouging, reaping significant profits in the process. See for example, U.S. Legation Beirut to Dept. of State, "Three Months Economic Report - Third Quarter 1950" October 19, 1950, 883a.00, Box 5439, Central Decimal Files 1950-54, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.

[19] U.S. Embassy Beirut to Dept. of State, "Intra Bank as a Factor in Lebanon's Economic Development" February 26, 1962, 883a.14, Box 2796, Central Decimal Files 1960-63, General Records of the Department of State (Record Group 59), National Archives at College Park, MD, p2.

[20] U.S. Embassy Beirut to Dept. of State, "Intra Bank" January 5, 1967, FN 6 LEB, Box 789, Subject-Numeric Files 1967-69, General Records of the Department of State (Record Group 59), National Archives at College Park, MD, Enclosure 1.

[21] Beidas rivals in the Beirut banking community were reportedly delighted in 1962 when Intra narrowly lost out in its bid to control the second largest Lebanese bank, Bank Al-Ahli, the controlling stake in which had hitherto been owned by Najib al-Salha, who was reputed to be the richest man in Lebanon at that point. Despite al-Salha's refusal to sell his Bank al-Ahli shares to Beidas, he nevertheless formed a close working relationship with him shortly after this, allowing Intra to significantly extend its financial reach. See U.S. Embassy Beirut to Dept. of State, "Significance of Change in Ownership of Bank Al-Ahli" July 2, 1962, 883a.14, Box 2796, Central Decimal Files 1960-63, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.

potential depositors to seek alternative homes for their fortunes, and Lebanon, as discussed in Chapter One, had successful positioned itself as one of the chief destinations for oil rents such as this. Beidas made frequent trips to the Gulf to meet with wealthy individuals and to personally persuade them to open an account with him and use Intra Bank for their banking needs. As a US Embassy report described it, in somewhat unflattering terms,

> [Beidas] has been the key figure in obtaining these large accounts by his smooth, convincing talk and by the clever manner of inflating the ego of prospective clients. Beidas' sales talk has apparently been irresistible to these simple sheikhs from the Arab hinterland.[22]

Cast in less pejorative terms, Beidas strategy clearly lay in developing relations of substantial personal trust in a context where his potential customers often lacked extensive direct experience with private financial institutions, and were thus somewhat wary about entrusting their fortunes to an unknown quantity. Beidas was apparently adept at assuaging fears and inspiring confidence, as well, no doubt, as engaging in a certain degree of flattery and charm.[23] What was no doubt ultimately persuasive in many instances was the bank's ability to offer above-average rates of interest on funds deposited with it, which was another key factor in Intra's rise to preeminence. In order to offer higher rates than those on offer at other Beirut banks, as well as compete with banking centers in Europe and North America, Intra engaged in credit and investment practices that were considered risky by other financiers, and which were, in some cases, considered as lying outside the scope of traditional banking activities. Intra engaged extensively in real estate speculation and brokerage, as well as the financing of new construction activities, which were increasing in pace and scope as Beirut's long construction boom continued throughout the 1950s and '60s, fueled to a significant extent by foreign investors from the Gulf.[24] Intra also, reportedly, lent money to both the Brazilian and Cuban governments, and helped to finance the latter's foreign trade activities.[25] The bank also became a major investor in large industrial and commercial enterprises, such as major cement and aluminum factories in Lebanon, and the La Ciotat shipyards near Marseille, France, the second-largest shipbuilder in that country.[26] The lack of any legal restriction on banking activities in Lebanon, or any requirements to limit the uses to which client's deposits were put, allowed Intra to pursue a relatively high-risk profit maximization strategy.

These factors, Beidas' personal style and a policy of offering high interest rates on deposits, as well as a pattern of high-risk, high-profit investments, do not appear to have

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[22] U.S. Embassy Beirut to Dept. of State, "Intra Bank as a Factor in Lebanon's Economic Development," 3.
[23] The US Embassy referred to the offering of 'gratuitous personal services' as a key element in the winning of new clients. See Ibid.
[24] Ibid., 3–4.
[25] Ibid.
[26] U.S. Embassy Beirut to Dept. of State, "Intra Bank [memo of Jan 5th 1967]", Enclosure 1.

been the whole story however. There is evidence that Intra Bank engaged in a wide variety of illicit activities in order to supplement its earnings, and the bank was known to some as a central component in a number of international criminal activities. According to a report by the CIA for example, Intra engaged in extensive currency smuggling operations, in one instance circumventing authorities in Egypt, to bring in large quantities of Egyptian pounds into Beirut for the use of wealthy Egyptians seeking refuge from Nasser's dirigiste economic policies.[27] Additionally, as Jonathan Marshall has revealed, Intra was also regarded by the US DEA as being a major financier of the international drug trade, as well as a key site for laundering the profits from that trade.[28] Beidas was claimed to have been close to the Corsican drug trafficker, and key element in the so-called 'French Connection', Marcel Francisci, as well as a French heroin trafficker and SDECE intelligence agent, Andre Labay, connections which he used to win a share of the profits from drug trade financing.[29]

Beidas also appears to have relied heavily on close connections with various intelligence agencies, including the US Central Intelligence Agency, the French SDECE, the Saudi intelligence service and the Lebanese Deuxieme Bureau.[30] According to Wilbur Crane Eveland, who was a CIA operative in Lebanon and elsewhere in the Middle East during the 1950s, the Beirut CIA station used Intra Bank for many of its Middle East financial operations, in particular the sourcing of foreign currencies needed to finance activities in various Arab and Middle Eastern states.[31] Connections and good relations with the Deuxieme Bureau were arguably most important of all however, and Beidas had an excellent working relationship with a senior Deuxieme Bureau officer, Colonel Gaby Lahoud, who was also a business partner of Beidas'.[32] In return for political support from the Chehab regime, Intra Bank helped to finance the Bureau's patronage activities, establishing 'slush-funds' and providing cheap loans to fund legislative election campaigns, influence union ballots and other similar actions. Given the nature of these intelligence and criminal connections, and the types of activities that flowed from them, it is difficult to fully assess the extent to which Intra's spectacular rise was dependent upon them. What seems

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[27] U.S. Embassy Beirut to Dept. of State, "Intra Bank as a Factor in Lebanon's Economic Development," 3.
[28] Marshall, *The Lebanese Connection*, 50–55. One major instance of Intra's money laundering activities occurred during the purchase of the La Ciotat shipyards referenced above. According to a secret report by the French Treasury and US narcotics agents, Intra substantially overpaid for the shipyard in order to launder funds obtained from the French drug trade.
[29] Ibid., 53. The SDECE, which was the predecessor to the current French foreign intelligence agency, the DGSE, was alleged to have financed much of its covert activities through control of the heroin trade in southeast Asia. See Alfred W McCoy, Cathleen B Read, and Leonard P Adams, *The Politics of Heroin in Southeast Asia* (New York: Harper & Row, 1972).
[30] The Deuxieme Bureau, Lebanon's military intelligence agency, became the a significant political actor after army commander General Fuad Chehab was elevated to the presidency in 1958. Chehab used the Deuxieme Bureau as a means to control dissent and to spread patronage, and it soon eclipsed other sections of the state's repressive apparatus. See Traboulsi, *A History of Modern Lebanon*, 139.
[31] According to his autobiography, Eveland was involved in planning and financing several coup attempts in Syria, as well as a major, and largely successful, effort to influence the Lebanese parliamentary elections in 1957. See Eveland, *Ropes of Sand*, chap. 23.
[32] Marshall, *The Lebanese Connection*, 52.

clear though is that they were significant to many aspects of Intra's operations, and it certainly seems probable that links to the Deuxieme Bureau, and to the Chehab regime more broadly, were crucial in providing the political patronage that Intra needed to operate successfully.

Intra Bank's need for close ties with major political actors was starkly revealed by events in late 1962. One accusation that had surfaced repeatedly in the past, was that Intra's successful rise to prominence, and much of Beidas' personal wealth, had come as a result of selling Arab-owned land in what was now Israel to the Jewish National Fund, the Zionist agency responsible for land acquisitions. These allegations were thrust onto the public stage in October of 1962, when Beidas was indicted by a military tribunal in Beirut on a range of charges, including that of 'trading with Israel', a treasonous offense. The indictment followed a vitriolic press campaign by the newspaper *Lisan al-Hal* which claimed Beidas had engaged in a host of corrupt practices, including that he had brokered the sale of land to Israel through a intermediary in Geneva, where Intra had offices, and it was rumored that a disgruntled former manager of the Intra branch in Damascus had provided definitive proof of the allegations.[33] The allegations appeared to center on the claim that Beidas had helped Lebanese landowners with properties in what had been Palestine sell their lands to the Israelis, and in return had obtained a large, 30% commission, not necessarily with the knowledge of the sellers.

The allegations were serious and could have resulted in severe penalties for Beidas, as well as drastically undermined confidence in Intra Bank itself, but he was able to take steps to ensure that the whole affair was quickly forgotten. After strenuous public denials of the accusations, and, reportedly, payouts to an array of smaller newspapers to induce them to print favorable stories defending his bank, Beidas met with President Chehab who agreed to intervene with the military tribunal and quash the proceedings.[34] It appears that the whole affair had been sparked by Salim Najjar, the owner of a major aluminum plant, SCIALE, which was heavily indebted to Intra Bank. Beidas was allegedly pushing for SCIALE to be declared bankrupt in order to allow Intra to take full control of the company, and Najjar had responded by paying the editor of *Lisan al-Hal* to bring to light evidence of criminal wrongdoing Najjar had obtained from the former Intra branch manager.[35] Najjar's scheme appeared to pay off, and in return for the quashing of the tribunal's proceedings, Beidas was apparently required to offer far more generous terms for the purchase of SCIALE.[36]

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[33] U.S. Embassy Beirut to Dept. of State, "Finance: Intra Bank Accused of 'Trading with Israel'" November 8, 1962, 883a.14, Box 2796, Central Decimal Files 1960-63, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.
[34] Ibid., 3.
[35] Ibid., 2–3.
[36] Ibid., 3–4.

Whatever the exact truth of Beidas' dealings with the Israelis over land sales, few members of the Lebanese elite would have benefitted from a public scandal in which their own complicity in officially illegal land trading activities may well have come to light. President Chehab's timely intervention was therefore no doubt motivated in part by a desire to avoid a potentially explosive scandal, but it was also likely a product of the mutually beneficial relationship that existed between his major power base, the military, and the Deuxieme Bureau in particular, and Intra Bank. In the events of 1962, Beidas' cultivation of such relationships appeared to have been a shrewd move, providing vital political protection at a critical moment of crisis. Four years later, however, when an even more serious crisis engulfed Intra, such vital protection was in desperately short supply.

Crisis

Almost four years to the day after Beidas was summoned by a Beirut military magistrate to answer charges of trading with an enemy nation, another crisis engulfed Intra Bank, one which Beidas would have far greater difficulty extricating himself from. The roots of this new crisis, which ultimately forced the bank to close its doors on October 14th 1966, began not in Lebanon, but in the United States, with a decision earlier in the year by the US Federal Reserve to raise interest rates, in response to the threat of rising inflation. As interest rates in Europe rose in response, banks in Lebanon found themselves unable to compete with the rates offered abroad, prompting a reduction in the inflow of capital from the Gulf, and rise in withdrawals from Beirut banks. The actions of US and European policymakers were also, accompanied by a desire on the part of Western bankers to eliminate, or at least reduce, the intermediary role of regional banking centers like Beirut and attract foreign capital, especially oil rents, directly into their own banking sectors.[37]

The increasing demand for cash began to place a strain on most major Beirut banks, but Intra Bank was especially vulnerable, as a result of its particular business model. Two major aspects of this model caused the bank great difficulty as the spate of withdrawals and the demands for cash grew. Firstly, the bank relied heavily on a narrow base of large depositors, which left it vulnerable to sudden withdrawals by one or more of its major customers, and, secondly, it had very limited reserves, with most of its resources tied up in long-term investments in property and securities. At the time of the crisis, Intra was later found by the Commercial Court of Beirut to have had a liquidity ratio of just 6.73%, while the court noted that a liquidity ratio of at least 25%, and preferably closer to 50%, was

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[37]Traboulsi, *A History of Modern Lebanon*, 149. Kamal Dib also reports that Swiss bankers were actively courting Gulf sheikhs at this time, promising them attractive rates of interest in return for large deposits, whilst the British were leaning on the wealthy residents of their former colony, Kuwait, in order to induce them to move their funds to London to shore up sterling. Dib, *Warlords and Merchants*, 117.

considered prudent given the volatility of the regional situation.[38] In the absence of any banking regulations in Lebanon, however, Intra was far from alone in overextending itself in this way.[39] These two factors worked together to exacerbate the bank's difficulties as the crisis unfolded; as large depositors began to withdraw their money from Intra, the bank's meager cash reserves were quickly stretched to the limit, ultimately forcing the bank to suspend payments and close its doors. But, it is important to note, Intra wasn't alone; most other major Beirut banks were also facing major demands for cash and were finding it increasingly difficult to meet requests for withdrawals as their limited reserves came under immense pressure. Following the announcement by Intra that it was suspending payments the Lebanese government, which had been hitherto slow to react to the unfolding debacle, was prompted to declare a three-day banking holiday, in the hopes of containing the crisis before it threatened the banking system as a whole.

The narrowness of Intra's deposit base, and its relative illiquidity, were the internal factors which formed the backdrop to the crisis, while the rise in interest rates in North America and Europe, and the increased efforts to attract capital inflows, were also key broader structural factors, but they were not the proximate causes of the collapse of the bank itself. In the case of the former set of factors, Intra was not unique among Beirut banks in having a poor liquidity ratio, and it may not even have been the worse offender in this respect. Intra was also, unlike some of its competitors, as subsequent events would reveal, solvent with a relatively healthy balance sheet, and given a more favorable set of circumstances Intra could well have weathered the storm and maintained its position of dominance. But a series of other factors were also central to determining the outcome of the crisis, though the precise nature and influence of some of these factors is somewhat shrouded in controversy, in part at least, the stuff of conspiracy theories, and it is difficult to determine the veracity of some of the claims made about why Intra Bank finally collapsed. Certainly Beidas himself believed that he was the victim of a conspiracy against himself and his bank, because of its spectacular successes and because of his failure to show due deference to Lebanon's traditional elite. He told *Life* during an interview in January 1967, whilst a fugitive in Brazil, that "My enemies knifed me! Tragically! It was all a well-planned conspiracy, a *very* well-planned conspiracy indeed!"[40] Beidas believed that his opponents, most notably the head of the Lebanese Bankers Association (LBA), Pierre Edde, and the deputy governor of the nascent central bank, the Banque du Liban, Joseph Oughourlian, both of whom were long-standing opponents of Beidas' and who were well-placed to influence government policy when the crisis began, had played a central role in orchestrating the downfall of Intra Bank. The role of these political factors, and the response of the government to the crisis, is discussed in more detail below.

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[38] "Intra Bank 'Irregularities' Reported by Court," *Financial Times*, January 5, 1967.
[39] According to IMF calculations, average liquidity in Beirut banks was only around 10% by 1966. See Sakhnini, "Intra Crisis and the Development of the Lebanese Banking System," 29.
[40] George de Carvalho, "Fall of the 'Genius from Jerusalem,'" *Life*, January 27, 1967, 87.

There was another set of regional, political factors which played into the crisis, and for which there is a somewhat stronger evidentiary base. In the period leading up to the financial crisis, the ruler of Saudi Arabia, King Faisal, had publicly expressed dissatisfaction with the direction of Lebanese foreign policy, during a meeting with members of the Lebanese community in Mali. Faisal stated that "We hope that the Lebanon will pursue its efficient neutrality between the Arabs. Nobody has any interest in seeing the Lebanon side with one group or another and likewise the Lebanon has no interest in so doing."[41] At a subsequent meeting in Saudi Arabia, during a reception with visiting members of the Lebanese Parliament, the King warned his guests that Saudi Arabia would take "economic measures" against Lebanon if the latter did not amend its increasingly "aligned" foreign policy.[42]

Fasial's references were to the increasingly acrimonious division in the region between the 'conservative' Arab states, led by Saudi Arabia and aligned firmly with the Western powers, and the 'progressive' states led by Gamal Abd' al-Nasser's Egypt, which were part of the Non-Aligned Movement and maintained relatively close diplomatic ties with the Soviet Union.[43] Traditionally, Lebanon had maintained a public facade of neutrality in inter-Arab disputes, though in reality it was tacitly a member of the conservative bloc, by virtue of its dependence on the economic patronage of the Gulf kingdoms, its antipathy to Nasser's 'Arab socialism', and its close ties with the United States and other Western powers. In the aftermath of the first Lebanese Civil War in 1958, during which the then-president Kamil Sham'un had openly accused the recently established United Arab Republic (the union of Egypt and Syria) of direct interference in Lebanese affairs, President Fuad Chehab had taken steps to repair Lebanese relations with Nasser and to ameliorate some of the tensions between Lebanon and the UAR. In the wake of such moves, the UAR embassy in Beirut had become active in political and press circles in Lebanon, and a number of major Lebanese newspapers echoed the Nasserist line on Arab affairs, much to the chagrin of the Saudi regime.[44] The Saudis appeared to believe that Nasserist influence in the Lebanese media exceeded their own, and the assassination of the editor of *Al-Hayat*, a conservative, pro-Saudi daily that was openly hostile to Nasser and Arab nationalism, in April 1966, confirmed to the Saudi regime that Nasserist influence was reaching a peak.

Whether the Saudi king did indeed respond to these developments by ordering Saudi citizens to withdraw deposits from Intra and other Lebanese banks is unclear, though US diplomatic staff received information from a number of Saudi sources that this is in fact

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[41] P.K Williams to Bryant, letter of September 30th (1966), "Political Relations: Saudi Arabia", FO 371/186630, The National Archives, UK, especially enclosed press clipping.
[42] Middle East News Agency clipping (October 30, 1966), "Political Relations: Saudi Arabia", FO 371/186630, The National Archives, UK.
[43] The classic English-language work on this regional conflict is Malcolm H Kerr, *The Arab Cold War: Gamal Abd Al-Nasir and His Rivals, 1958-1970* (Oxford: Oxford University Press, 1981).
[44] Traboulsi, *A History of Modern Lebanon*, 138.

what happened. On October 18th, the US consulate in Jedda, Saudi Arabia, relayed reports that 100 million Saudi Riyals (approximately US$22.2 million) had been withdrawn from Intra Bank, while the acting Saudi Foreign Minister Mas'ud told US officials that the Saudis had indeed withdrawn funds, and that such withdrawals had probably contributed to Intra Bank's collapse. His remarks were ambiguous regarding the direct involvement of the Saudi king; Mas'ud referenced the fact that King Faisal was "fed up" with the Lebanese and had "allowed" withdrawals to be made.[45] Two days later, one of Faisal's sons, Prince Mohammad told the US ambassador to Saudi Arabia that he had encouraged his friends to withdraw funds from Lebanese banks, and that "the time was overdue for Lebanon to acquire a more responsible government."[46] Ten days earlier, another of Faisal's sons, Prince Abdullah told a State Department official in Beirut that Faisal was "extremely angry" with the Lebanese government, that he intended to take "concrete action" to force a change in Lebanese policy, and that he planned to use the Maronite Patriarch to build a political coalition to force a change in government.[47] The evidence here is strongly suggestive, but not fully conclusive regarding direct Saudi government involvement in the collapse of Intra Bank. It does seem highly likely, as the US embassy in Beirut concluded, that King Faisal was at the very least aware that large Saudi withdrawals were going to be made from Intra, and probably gave such moves his tacit approval.[48] It is also clear that the Saudi royal family was highly displeased with the Lebanese government and wished to see changes in Lebanese government policy, a fact which wealthy Saudis were apparently well aware of. This is as far as the evidence takes us at present, suggesting some Saudi involvement in the crisis, but probably not in a manner that was ultimately decisive in bringing about the bank's collapse.[49]

In addition to this regional dimension to the crisis, there was, as mentioned above, a domestic aspect, one which, once the crisis had begun, was potentially most determinative of its ultimate trajectory. This domestic dimension flowed from Beidas' status as an 'outsider', a naturalized immigrant who didn't necessarily conform to the accepted

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[45] U.S. Embassy Jidda to Dept. of State, "Intra Bank" (telegram, October 18, 1966), FN 6 LEB, Box 885, Subject-Numeric Files 1964-66, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.

[46] U.S. Embassy Jidda to Dept. of State, "Views of Prince Mohamed Al-Faisal on the Lebanese Banking Crisis and Other Issues" October 24, 1966, FN 6 LEB, Box 885, Subject-Numeric Files 1964-66, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.

[47] U.S. Embassy Beirut to Dept. of State, "Intra Bank" (telegram, October 20, 1966), FN 6 LEB, Box 885, Subject-Numeric Files 1964-66, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.

[48] This seems to be the conclusion reached by the British Embassy in Jedda as well. See W.P. Cranston to M.S. Weir, letter of 25th October (1966), FO 371/186640, The National Archives, UK.

[49] Other foreign interests were implicated in the crisis too, including the Kuwaitis, who were large depositors in Intra, and the Moscow Narodny Bank, which also, allegedly, made large withdrawals from the bank at the height of the liquidity crisis. In the case of the former, despite the rumors, the Kuwaitis (including apparently the ruling Emir) still had large deposits, worth millions of Kuwaiti Dinars, with the bank after it closed its doors, while the Bank of England, which was one of a number of foreign entities monitoring the unfolding crisis from afar, apparently had confidential information that the Moscow Narodny Bank was not in fact involved in the Intra affair. See Eaden to Goodison, letter of October 19th (1966), FO 371/186640, The National Archives, UK.

conventions of personal and political behavior of the ruling elite, and whose business style and success threatened that of some of Lebanon's wealthiest and most influential individuals. Most secondary accounts, as well as contemporary diplomatic communications, reference Beidas' outsider status as being in some way a key factor, but it is difficult to get an accurate, direct sense of how much of a factor it was, and what the members of Lebanon's native elite actually thought of Beidas. It seems plausible to suppose, as many contend, that Beidas' rise to wealth and power had left him with a number of powerful enemies among the Lebanese plutocracy, who resented his success and the threat that he posed to their traditional control of Lebanese economic life.[50]

By virtue of its seemingly inexorable rise, Intra Bank had become the most important economic institution in Lebanon and had a commanding place within the economy as a whole, such that the leading figures of the ruling 'consortium' that wielded power in the country (see Chapter One) grew increasingly concerned that the economic landscape that they had crafted in the years after independence had been 'hijacked' by an immigrant outsider.[51] Although a naturalized citizen, Beidas' Palestinian identity was almost certainly a hindrance to his ability to gain acceptance in a country where attitudes towards the Palestinian refugee population, by some sections of Lebanese society at least, were ambivalent at best, and often openly hostile.[52] In his autobiography, the head of Middle East Airlines and member of the Intra board, Najib Alamuddin, claimed that when Beidas went to him for help after Intra's difficulties began, the deputy chief of the Banque du Liban (BDL), Joseph Oughourlian had responded by saying "Why did you [invest in Lebanon]? Who asked you to? You are not Lebanese and Lebanon does not want you to control its economy."[53]

Beidas also appears to have managed his personal relations with key members of the Lebanese elite in a way that did not ultimately serve him well. Although he had enjoyed close relations with President Chehab, and by extension, to a certain extent, with the 'Chehabist' political clique that dominated Lebanese political life in the 1960s, under Chehab's successor, President Charles Helou, Beidas' relations with the presidential palace were considerably cooler, to the extent that Helou was reported to have reacted with "almost vindictive delight" upon learning of Intra's difficulties in October 1966.[54] Beidas was also not a part of the powerful Lebanese Bankers' Association (whether he chose not to

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[50] This viewpoint is expressed in cables from the UK embassy for example, and in Dib, *Warlords and Merchants*; Marshall, *The Lebanese Connection*; Traboulsi, *A History of Modern Lebanon*.
[51] Dib, *Warlords and Merchants*, 107–115.
[52] Sayigh, *Too Many Enemies* is an excellent introduction to the Palestinian experience in Lebanon.
[53]Najib Alamuddin, *The Flying Sheikh* (London: Quartet Books, 1987), 136. Alamuddin notes that Oghourlian was himself the son of Armenian immigrants to Lebanon.
[54] U.S. Embassy Beirut to Dept. of State, "Views of Various Lebanese Personalities on the Advisability of Refloating Intra Bank" January 13, 1967, FN 6 LEB, Box 789, Subject-Numeric Files 1967-69, General Records of the Department of State (Record Group 59), National Archives at College Park, MD, p2.

join or was purposely excluded is unclear), and, in a press interview in early 1967 Beidas claimed that the head of the LBA, Pierre Edde, "hated the sight of me."[55] Beidas had allegedly fallen afoul of a number of other key political figures as a result of his refusal to extend them generous credit arrangements. Abdullah Yafi, a veteran politician who served as prime minister on numerous occasions, had previously been an ally of Beidas', sponsoring his application for a banking license in 1951.[56] However, his relationship with Yafi later soured when Beidas refused to grant him a loan, a decision which, given that Yafi was prime minister once again when the crisis hit, would prove particularly unfortunate.[57] Another veteran politician and former prime minister, Saeb Salam, a prominent individual from a wealthy and influential Beirut family, also approached Beidas for a loan, allegedly to construct a mansion south of Beirut, and was similarly rejected.[58] In general, Beidas was reputed to have put purely business concerns ahead of political interests on too many occasions, and this earned him the enmity of powerful elite interests who, once Intra faced serious problems, were in a position to determine how, and indeed if, the bank would survive the crisis.

If the attitudes of Lebanon's elite towards Beidas before Intra Bank encountered problems are not fully clear, their actions, and those of the state entities charged with managing the fallout from the financial crisis, support the notion that Beidas had made some powerful enemies. Once Intra's difficulties became apparent, and the extent of the liquidity crisis was clear, the bank sought assistance from the BDL to allow it to meet its obligations. The bank, under the direction of deputy chief Oughourlian[59], equivocated for some time before agreeing to extend a line of credit to Intra of just LL15 million, secured on assets that Intra held in other companies with a stated value of over LL120 million.[60] According to Najib Alamuddin, in place of the usual practice in such circumstances of discretely inspecting the shares put up as collateral in the borrowing institution's own vaults, Oughourlian insisted that the shares be delivered to the BDL to be inspected there, where they were then displayed and examined publicly in the BDL's lobby.[61] This somewhat strange piece of theater had the effect of greatly increasing uncertainty about Intra's standing, and fueled rumors that the bank was in serious trouble. At the same time, the sum advanced for these securities, LL15 million or 12.5% of the stated value of the

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[55] In the same interview he emphasized his point by claiming Edde had taught his pet parrot to cry 'Down with Beidas!' de Carvalho, "Fall of the 'Genius from Jerusalem,'" 88.
[56] Dib, *Warlords and Merchants*, 109.
[57] de Carvalho, "Fall of the 'Genius from Jerusalem,'" 87.
[58] Dib, *Warlords and Merchants*, 114.
[59] His superior, BDL governor Phillip Takla also served as foreign minister in Abdallah Yafi's government, which left him little time to attend to central bank affairs, and effectively left Oughourlian in charge of day-to-day activity. Takla's absence during the crisis (he was overseas when the crisis first hit) would later come under scrutiny and be the subject of much criticism in parliament and the press.
[60] The precise value of Intra's assets, an issue of some complexity, would become the subject of intense debate in the weeks and months following the crisis - see below.
[61] Alamuddin, *The Flying Sheikh*, 146.

assets, was quickly exhausted by the growing pace of withdrawals from Intra, and was wholly inadequate to the bank's needs. When this line of credit was gone, Intra had little choice but to declare a suspension of payments and close its doors, by which point the crisis had engulfed the banking system as a whole.

During this this time, two further events took place which seemed to support the contention that powerful interests were determined to ensure Intra did not survive the crisis. Firstly, the government intervened on October 16th to try and calm the situation and contain the mounting crisis by calling a three-day banking holiday and by decreeing that the BDL would take extraordinary steps to ensure the liquidity of the banking sector. Various forms of credit would be extended to Beirut banks, the government announced, up to 65% of deposits, to ensure that demands for withdrawals could be met. However, significantly, such assistance would not be extended to Intra.[62] The government defended this position by claiming that Intra was beyond recovery and had, in any case, already closed its doors. The government was also claiming that the Intra board of directors, foremost among them Beidas himself, had committed a host of offenses including fraud, embezzlement, and criminal negligence and should therefore face charges, rather than receive government funds. In a meeting with the prime minister, Abdullah Yafi, and President Helou, during which all requests for assistance were denied, Alamuddin claims that Yafi told him, "I have received a report giving me all the details of Bedas' thieving, and of the hopeless situation of the bank. I am assured the bank is in very bad shape and nothing can save it."[63] The government additionally argued that since Intra had applied for a legal injunction preventing a declaration of bankruptcy (a *concordat preventif*), it was further ineligible for BDL assistance. Alamuddin claims that the government lied about the timing of Intra's court filing, which he states was undertaken a day *after* the government's announcement and so could not have been a legitimate cause for denying further BDL assistance. He also claims that Intra only filed the *concordat* after being pressured to do so by the government, which then gave the latter a ready excuse to deny further assistance to the bank.[64] Whatever the exact truth of the matter, filing for the injunction allowed the court to appoint a special panel to investigate the bank's financial position and its business practices, and was a further public sign of serious problems.

The almost complete lack of support offered to Intra contrasts sharply with the support offered to other Lebanese banks by the BDL, including banks whose situation was hardly less precarious than that of Intra. One such bank, Bank al-Ahli, the second largest in the country after Intra, was also in serious difficulties in the aftermath of the Intra collapse, but

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[62] Eaden to Goodison, letter of October 19th, 3.
[63] Alamuddin, *The Flying Sheikh*, 138. If true, the timing of the conversation is significant, as no official inquiry into Intra had yet been convened, let alone produced its findings, so it is unclear where Yafi's information was coming from. When questioned by Alamuddin he refused to share the report or disclose its author.
[64] Ibid., 147–8.

was afforded every assistance to keep it afloat. When questioned by a US government official, the Director-General of the Lebanese Ministry of Finance, Khalil Salem, claimed that it was now the policy of the Lebanese government "from the President down to the most junior deputy governor of the central bank" to sustain the Lebanese banking system and to not let any banks go bankrupt.[65] The contrast in the government's attitude towards Bank al-Ahli versus that towards Intra, is particularly striking given that the former's situation emulated many features of the latter's. Al-Ahli also faced a major run on its deposits, around the same time as Intra, and had a virtually identical liquidity ratio, estimated at around 6%, indicative of the policy the bank's owner, Adrien Geday, had followed, similar to Yusuf Beidas, of investing deposits in relatively risky long-term ventures.[66] Indeed Geday, who enjoyed a poor reputation in Beirut banking circles, had been described as "trying to emulate Beidas, but without quite having Beidas' flair"[67], and was regarded by Bank al-Ahli's founders, who had sold out to Geday in 1962, as having ruined the bank with his pursuit of high-risk investments. Such perceptions, and the realities of the Bank al-Ahli financial position, did not deter the government from extending substantial support to the bank, and may lend credence to the notion, strongly defended by figures such as Alamuddin, that senior figures in the Lebanese government were biased against Intra, and Beidas in particular, and this was the reason the bank was allowed to fail.

Although the Lebanese government's response to Intra's difficulties suggest that senior government officials had consciously chosen not to try and save the bank, it is difficult to be certain about such a conclusion, or about the exact motivations behind the government's response to Intra's predicament, largely because the available sources only present a partial picture and are sometimes contradictory. Alamuddin, a board member of Intra and a close friend of Beidas, clearly believed that the government's actions amounted to an official conspiracy against the bank, and indeed claimed that the run on Intra deposits, which initiated the whole crisis, was started in the first place because of deliberate campaign of rumor-spreading, begun by President Helou and Prime Minister Yafi, and followed up with letters and phone calls to Intra depositors.[68] Alamuddin's reasoning is that these political figures, and the broader Lebanese elite that they represented, owed their fortunes and their positions to their advocacy for and connections to foreign commercial and industrial interests, while Beidas' business vision, which Alamuddin describes as being one of "Lebanonization", centered on bringing the bulk of the foreign-

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[65] U.S. Embassy Beirut to Dept. of State, "Banque Al-Ahli" December 20, 1966, FN 6 LEB, Box 885, Subject-Numeric Files 1964-66, General Records of the Department of State (Record Group 59), National Archives at College Park, MD, p1.
[66] Ibid., 2.
[67] U.S. Embassy Beirut to Dept. of State, "Shakeup in the Banque Al-Ahli (II)" March 17, 1967, FN 6 LEB, Box 789, Subject-Numeric Files 1967-69, General Records of the Department of State (Record Group 59), National Archives at College Park, MD, p1.
[68] Alamuddin, *The Flying Sheikh*, 146. To emphasize his point, the relevant chapter in his autobiography is entitled 'Intra: Murder of a Bank'."

owned major enterprises operating in Lebanon under true Lebanese control.[69] In this rendering of the narrative, elite interests were antipathetic to Beidas, not only because his success threatened to diminish or sideline their own commercial and financial ventures, but also because his business model challenged the very wealth-accumulation strategies that the Lebanese elite had been working to reinforce since independence from France. Certainly the wealth and power of the Lebanese elite depended to an important extent on their connections with regional and international interests, in particular states such as Saudi Arabia, Kuwait and the US. In the wake of the crisis of 1966, described in greater detail below, those interests were able to gain a much greater foothold in the Lebanese financial sector, and foreign ownership and participation in Lebanese banks increased greatly. Whether this is sufficient evidence to conclude that Alamuddin's claims of an organized conspiracy are true is uncertain however.

It should be noted that the theory of an organized conspiracy against Intra seems to ignore the broader context of rising interest rates in the United States and Europe which led depositors in Beirut banks to consider moving their funds, and it doesn't fully explain why the crisis spread to the Lebanese financial sector as a whole and wasn't just confined to Intra. There is also the issue of the BDL's competence, which was called into question when the crisis began. The central bank was a new institution in Lebanon, founded only two years before the crisis, and was largely untested, staffed with personnel who lacked experience and clear legislative guidance.[70] It seems plausible to imagine that such inexperience played a role in the slowness with which the BDL responded to the crisis and the perhaps overzealousness with which they sought to shore up other banks after Intra's fall. The complete absence of a tested regulatory framework, and the enthusiastic embrace of 'laissez-faire' in the financial sector, as in the economy as a whole, also left the government in a position of having to develop, effectively from nothing, a credible response to a deep, systemic crisis, a challenge for any regime to accomplish.

In sum, on the basis of the available evidence, it seems likely that aspects of all of these factors played some role in the downfall of Intra, and that in many cases they worked to reinforce one another. Interest rate rises abroad and Intra's own business model, which emphasized long-term investments, certainly left the bank in difficult circumstances once demand for withdrawals reached a critical mass. It is also plausible to believe, on the basis of evidence provided above, that some Saudi citizens may have withdrawn substantial funds from the bank, possibly on the orders of, or at least with the consent of, their ruler, in order to influence Lebanese foreign policy. Similarly, powerful figures in the Lebanese elite may well have used the difficulties that Beidas found himself in to rid themselves of a troublesome rival by refusing to come to his aid. Whether they, or the Gulf regimes, were

[69] Ibid., 142.
[70] In the wake of the crisis the government invited the Banque de France to send a team to Lebanon to advise on the reorganization of the BDL to improve its efficiency and effectiveness.

the initial cause of Intra's difficulties, however, is much harder to determine, and the specific spark that ultimately engulfed the bank may never become fully apparent. One thing that was apparent though was that bureaucratic inexperience and a regulation-free banking environment had come close to costing Lebanese financiers a great deal, and the resolution of the crisis, over the course of the following year, entailed a raft of new measures which tried to curtail the worst aspects of the laissez-faire system and give the BDL new powers to protect the banking system from some of its own excesses.

Resolution

In the wake of the Intra collapse the Lebanese government was able to contain the spread of the crisis and no further banks suffered the same fate as Intra. Nevertheless, there remained the question of what to do with Intra Bank, how to secure the interests of the depositors and how to dispose of the bank's numerous assets, the combined value of which, though a subject of debate, was certainly high. The road to the eventual solution, arrived at almost exactly a year after the crisis began, in October 1967, was somewhat tortuous and involved several investigations and the interventions of numerous interested parties, including foreign governments and private investors. Ultimately a proposal by the Wall Street investment bank Kidder Peabody, put together by its regional representative Roger Tamraz, was accepted by the Lebanese government, and Intra Bank was saved from complete liquidation by being transformed instead into a new financial entity, the Intra Investment Corporation (IIC). This resolution, which ultimately left the new entity under the control of the Lebanese and various foreign governments, was not, however, welcomed by all. Intra shareholders, its former management, some of those to whom the bank had extended credit and some foreign interests all expressed vocal opposition to the new agreement, as discussed more below. However, the agreement did allow a line to be drawn under the Intra affair and for the Lebanese elite to present an image of a return to normalcy after a tumultuous twelve months. This was all the more true in the wake of the dramatic regional events of June 1967, in which a coalition of Arab armies had been swiftly defeated by Israel. The turmoil created by the war and its aftermath added to the economic instability already plaguing Lebanon, and the final resolution of the Intra crisis was important in helping to create the impression that a period of uncertainty and financial chaos was finally coming to an end. The road to this resolution was, however, a difficult one.

Following the decision by the Intra management to seek a *concordat preventif* to stave off a declaration of bankruptcy, the Commercial Court of Beirut, under Judge Ghandour, ordered the formation of a special expert investigative committee to examine the bank's

condition and determine whether or not, under Lebanese commercial law, a declaration of bankruptcy was in fact warranted.[71] The committee, which was led by a retired judge Shawkat al-Munla and comprised of local accountants, was initially given only a week to reach a determination and report back to the court, though this deadline was soon extended by several weeks. The committee ultimately claimed to have found evidence of a litany of unethical and illegal banking practices committed by Intra senior management, with Beidas himself among them, which included embezzlement of client funds, failure to keep accurate records and to manage the bank in accordance with the commercial code, artificially inflating the value of assets, bribery of public officials and other serious offenses.[72] The accuracy of the report, and the competency of the committee that had produced it was, however, strongly called into question by Intra's defenders, who argued that the local accountants appointed to the committee had no experience auditing a bank of Intra's size, and that the committee's chair, al-Munla, had no commercial or financial experience of any kind. Several Intra officials, as well as the consultant Paul Parker, a former Bank of America regional director appointed by Beidas before the crisis to advise on restructuring the bank, claimed that many of the illegal practices identified by the court committee were in fact perfectly sound, and legal, banking practices which, as a result of poor bookkeeping by inexperienced staff, only appeared fraudulent.[73]

For Intra insiders like Najib Alamuddin, the report was part of the ongoing campaign to undermine Intra and to destroy its reputation and that of its senior management. The final ruling of Judge Ghandour in early January 1967, which rejected Intra's petition for a *concordat* and declared the bank to be bankrupt, was, for Alamuddin, the culmination of this campaign.[74] The bankruptcy ruling was widely reported on in the local and international media, even though it was provisional in nature and would not come into effect until an appeal had been heard and ruled on. To add to suspicions that Ghandour's actions were intended for media consumption only, his ruling came only days before the Lebanese parliament passed a new law, popularly referred to as the 'Intra Law', which set down new rules and procedures in the event of bank failures, effectively stripping the commercial court of any significant role in such matters, and rendering Ghandour's ruling moot. A court of appeal quickly ruled the bankruptcy ruling invalid as a result of the new legislation, and Intra was returned to its undetermined status.

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[71] At this point, there were no special laws in Lebanon covering bank failures, only a general commercial code which applied to all firms, regardless of type. This was rectified in the course of the Intra crisis.

[72] U.S. Embassy Beirut to Dept. of State, "Intra Bank" January 6, 1967, FN 6 LEB, Box 789, Subject-Numeric Files 1967-69, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.

[73] U.S. Embassy Beirut to Dept. of State, "Intra Bank: Delinquencies, Assets and Liabilities" January 10, 1967, FN 6 LEB, Box 789, Subject-Numeric Files 1967-69, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.

[74] Alamuddin, *The Flying Sheikh*, 154–5.

Once again, it is difficult to determine with certainty what motivated the actions of Judge Ghandour, or whether the committee he empowered arrived at a reasonable verdict on the situation at Intra. Certainly, defenders of the bank and its senior management were outraged by the way the court investigation was conducted, and what they regarded as the poor quality of the investigation. It also seems justified to question the timing of Judge Ghandour's ruling, whether or not we fully accept the charge of conspiracy. At a more fundamental level, some observers queried the conflation of questionable business practices with outright insolvency; even if the charges of fraud and embezzlement against Intra's management were true, that did not prove the bank was actually insolvent, which, in theory, was what the court was ultimately supposed to be determining.[75] All of this left question marks around the judicial process initiated by the filing of the request for a *concordat*. What was unquestioned, however, was that Intra controlled a portfolio of extremely valuable assets, including Middle East Airlines, a major French shipyard, and an array of high-value real estate holdings in Paris and New York, and this considerably raised the stakes on the issue of Intra's fate and who would come to control its holdings.

It was this reality which likely formed part of the motivation for parliament's decision to pass the 'Intra Law', prevent outright bankruptcy and liquidation, and nullify the process that Ghandour was overseeing. Under the terms of the new law the government was to appoint an interim management committee for the bank, which was given six months to determine if the bank could be re-floated or whether liquidation was the only viable option. This effectively granted Intra the *concordat* it had sought, and allowed time for interested parties to put together bids for a takeover of Intra. There still remained the question of whether Intra was actually a sound financial enterprise, what the true value of its holdings and assets amounted to, and what the scale of its liabilities was.

Recognizing that the local team of accountants he had appointed was probably not fully up to the task, Ghandour had also invited, in early November 1966, the British accountancy firm Price Waterhouse to conduct its own audit of the bank and report to the commercial court on its findings within one month. This firm was hastily replaced by another, Cooper Brothers, after the head of Price Waterhouse's team, Eric MacMillan, publicly disclosed to the British newspaper, the *Observer* that, in his opinion, and based on preliminary findings, Intra was basically fully solvent and an excellent investment opportunity. His public remarks, which were reprinted in a number of Lebanese and international papers, were considered a breach of professional ethics and the court quickly rescinded Price Waterhouse's contract.[76] The affair, an embarrassment to Price Waterhouse, was further grist for those, like Alamuddin, who believed the judicial process was being driven by political concerns, and some were convinced that Price Waterhouse was actually dismissed

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[75] U.S. Embassy Beirut to Dept. of State, "Intra Bank: Delinquencies, Assets and Liabilities," 3.
[76] Eaden to Goodison, letter of November 14th (1966), FO 371/186640, The National Archives, UK.

for being too truthful about the state of Intra Bank.[77] Following this brief debacle, the new contractors, Cooper Brothers, were left to determine the financial position of Intra Bank and to report as quickly as possible to the commercial court.

In the meantime a secret internal report by Intra management was shown to senior staff the US Embassy which revealed, for the first time, that Intra had made substantial losses, partly as a result of risky investments and lines of credit that had been extended but which were now considered unrecoverable.[78] Intra officials were keen to stress, however, that the report covered the Lebanese branches of Intra only, and did not include foreign subsidiaries, which themselves held valuable assets. The relatively complex business structure that Beidas had established for Intra in which foreign branches of the bank were separate companies that Intra Bank held the majority of shares in, as a mechanism for limiting liabilities, meant that the total assets held by Intra were spread over a variety of companies and the precise ownership of assets could not always be straightforwardly determined. Intra officials also stressed that the valuation of the Lebanese assets (such as Middle East Airlines, the Casino du Liban, various hotels and industrial concerns etc.) depended upon Intra remaining a going concern; under conditions of bankruptcy it would be almost impossible to recoup the full value of these investments. These two issues would be at the heart of efforts to ultimately determine what Intra was worth and how, indeed if, it could be saved.

When Cooper Brothers released their preliminary report in February 1967, it was prefaced by statements revealing the difficulties they had encountered trying to determine both the value of many of the assets Intra owned, as well as the credit-worthiness of some of those who had borrowed funds from the bank. Depending on how such issues were resolved, Intra's losses could have been as low as LL12 million or as high as LL107 million, an indication of the wide margins of error in the auditing process. Cooper Brothers ultimately determined losses to be just under LL51 million, or 6.9% of assets, though they claimed that given more time and resources a more accurate determination could have been reached.[79] One of Beidas' chief lieutenants, Badr Fahoum, responded to the Cooper report in a letter to the prime minister, highlighting the undervaluation of many assets in the report and contesting the status of some of the loans listed as 'bad debts', while other Intra defenders proclaimed the Cooper report to be misleading and inaccurate.[80] Developments over subsequent years seemed to bear out the complaints of Fahoum and

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[77] Alamuddin, *The Flying Sheikh*, 148–9.
[78] U.S. Embassy Beirut to Dept. of State, "Intra Interim Management's Secret Report Lays Bare Extent of Losses" January 18, 1967, FN 6 LEB, Box 789, Subject-Numeric Files 1967-69, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.
[79] U.S. Embassy Beirut to Dept. of State, "Intra Bank: Cooper Report" February 20, 1967, FN 6 LEB, Box 789, Subject-Numeric Files 1967-69, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.
[80] Alamuddin, *The Flying Sheikh*, 153.

others as many of Intra's assets were sold at prices far higher than Cooper Brothers estimated, while many 'bad debts' were in fact repaid in full.[81]

After much behind-the-scenes maneuvering, and a number of failed attempts, a deal was finally reached to prevent the liquidation of Intra Bank. The parameters of any deal had largely been laid out in the immediate aftermath of the crisis, and it was clear that the Lebanese government, along with the governments of some of the Gulf states and the United States, would have some financial stake in any reconstituted entity.[82] The Lebanese government's claims flowed from its status as protector of the interests of small depositors, who were mainly Lebanese and who the government had pledged to make whole, while the claims of the Gulf states, particularly Kuwait and Qatar, stemmed from their status as large depositors in the bank. For its part, the United States had an indirect claim based on the fact that Intra had acted as guarantor for a multi-million dollar deal to export surplus wheat from the US to Lebanon, through the medium of the US Commodity Credit Corporation (CCC).[83] These claims were ultimately satisfied by a deal proposed by the Wall Street investment firm Kidder Peabody through its representative in Lebanon, Roger Tamraz, and accepted by the Commercial Court of Beirut on October 11th, 1967.[84] The deal essentially called for the conversion of deposits into shares in a new entity, the Intra Investment Company (IIC) which would essentially act as a holding company for Intra's major assets.[85] Kidder Peabody, and Tamraz himself, stood to earn substantial fees for brokering the deal, and for managing the new entity for the first few years of its life. The deal was attractive to the large depositors, like the Kuwaitis and Qataris, who had a better chance of recouping the entirety of their original funds than if Intra was simply liquidated, while the Lebanese state, and by extension the powerful individuals who dominated

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[81] For example, Intra's skyscraper in New York was estimated to yield a profit of US$1.5 million, but when it was eventually sold a few years later, it yielded a profit of US$6.5 million, which was alone equivalent to roughly 40% of the deficit reported by Cooper Brothers. Ibid., 152.

[82] U.S. Embassy Beirut to Dept. of State, "Lebanese Bank Crisis" (telegram, October 22, 1966), FN 6 LEB, Box 885, Subject-Numeric Files 1964-66, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.

[83] The recovery of the roughly $21 million credit extended to a pair of Lebanese businessmen by the CCC, and guaranteed by Intra, was a major preoccupation of the US Embassy during the crisis, particularly as the credits were the foundation of US domination of the Lebanese grain market. See U.S. Embassy Beirut to Dept. of State, "US Grain Credits to Lebanon: Intra Bank" (telegram, January 18, 1967), FN 6 LEB, Box 789, Subject-Numeric Files 1967-69, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.

[84] Both Kidder Peabody and Tamraz were to later achieve some notoriety for their business activities. Kidder Peabody was eventually sold to General Electric in the mid-1980s following an insider-trading scandal, while Roger Tamraz was embroiled in a host of scandals in the decades after the Intra crisis, and was called before the US Senate as part of an investigation into a cash-for-access controversy stemming from Tamraz's efforts to secure a meeting with President Clinton. At the time of those hearings, in the mid-1990s, there was also an outstanding warrant for Tamraz's arrest issued by the Lebanese authorities on charges of embezzling over $200 million from another Beirut bank, Bank al-Mashreq in 1989. See the full report on Roger Tamraz by the US senate at http://fas.org/irp/congress/1998_rpt/sgo-sir/2-21.htm

[85] U.S. Embassy Beirut to Dept. of State, "Intra Bank: Kidder Peabody Proposal" September 26, 1967, FN 6 LEB, Box 789, Subject-Numeric Files 1967-69, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.

Lebanese political and economic life, would be able to exercise a high degree of control over the fortunes of some of the most profitable companies in the country.[86]

There were a number of detractors, however, who branded the deal unacceptable, including rival French interests who had hoped to buy Intra themselves, as well as a cohort of businessmen who owed substantial sums to Intra and who had hoped, if the bank was ultimately liquidated, to obtain a write-off of much of those debts.[87] There was also opposition from Intra shareholders, including former Intra management, whose shares were now worthless as a result of the Kidder Peabody agreement, and as such had sustained major financial losses. None of these parties were in a position to prevent the ratification of the agreement however, and it was clear that the majority sentiment was in favor of drawing a line under the affair in a way which brought maximum benefit to those wealthy interests with the greatest leverage. For his part, Beidas died in exile in Switzerland, where he had been arrested for holding a false passport and was being held awaiting extradition hearings. Former Intra executives in Lebanon were pursued by the courts, and while those of Lebanese descent largely escaped prosecution, the Palestinians among them were stripped of their assets and imprisoned. The fallout from the Intra affair as a whole reverberated throughout Lebanon's economy and society, fueling the uncertainty and instability that would accelerate during the early 1970s. For Najib Alamuddin, the consequences of the Intra crisis, and the government's mishandling of it, were clear:

> I am convinced the affair was the beginning of the disintegration of Lebanon and its old type of Lebanese government - a system corrupt in style and morals that had plagued Lebanon since independence and finally plunged the nation into civil war that threatened its very survival as an independent state.[88]

Aftermath of Intra Crisis

In the wake of the Intra crisis the political economy of Lebanon began to shift in a number of important respects. The crisis was not, in itself, the sole cause of all of these changes, but it did help to catalyze some of the transitions taking place. The most immediate and direct impacts were in the field of banking and finance, where regulation,

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[86] A list of Intra's non-real estate assets at the time of its collapse is provided in U.S. Embassy Beirut to Dept. of State, "Intra Bank [memo of Jan 5th 1967]."
[87] U.S. Embassy Beirut to Dept. of State, "French Opposition to the Intra Bank Settlement of October 11, 1967" November 7, 1967, FN 6 LEB, Box 789, Subject-Numeric Files 1967-69, General Records of the Department of State (Record Group 59), National Archives at College Park, MD; U.S. Embassy Beirut to Dept. of State, "Intra Bank: Victor Moussa's and Adrien Geday's Opposition to the Intra Settlement of October 11, 1967" November 7, 1967, FN 6 LEB, Box 789, Subject-Numeric Files 1967-69, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.
[88] Alamuddin, *The Flying Sheikh*, 140.

concentration and foreign-control increased substantially. In the broader economy, the crisis increased a tendency towards investment in light industry and export-oriented production, while at the political level the Intra debacle fueled the ongoing popular discontent at the gross levels of inequality plaguing the country. At the same time, an alienated Palestinian minority who, mindful of the treatment of Beidas and his lieutenants, became convinced the 'Lebanese dream' offered them nothing, just as the armed forces of the Palestinian Resistance Movement were arriving in Beirut, radically altering the balance of power within Lebanon. These shifts helped set the stage for the conflagration of 1975.

Banking & Finance

There were two major effects of the Intra crisis on the banking sector in Lebanon in the months and years after Intra collapsed. The first was a move towards a greater degree of regulation by the government over the banks, with the aim of ameliorating some of the worst effects of the laissez-faire system that had been allowed to flourish hitherto, and which was widely acknowledged to have been a principle cause of the Intra crisis. The crisis of confidence in the Lebanese banking system engendered by the Intra collapse, and the attendant difficulties which many other Beirut banks had suffered, had led to a withdrawal of deposits and to a serious tightening of the credit market, as banks were increasingly reluctant to lend funds given the endemic uncertainty about the future. This in turn led to conditions of general economic malaise, with the trade sector, the central component of the national economy, among the most threatened as many merchants, who relied on revolving credit instruments to fund their activities, struggled to obtain the necessary advances to make purchases. Rough estimates in the immediate aftermath of the crisis suggested that retail sales had fallen by up to 40% and many sectors like trade and construction were facing a serious slowdown in activity. It was also reported that many merchants were facing increasing difficulties in paying bills, and repaying letters of credit.[89] Given this reality, and the threat of a prolonged general economic crisis, the government moved to try and restore confidence in Lebanese banking by instituting a series of reform measures. Among the first was a pledge by the government to guarantee the funds of small depositors, originating with a promise to protect the 29,000 small depositors of Intra Bank who had accounts of less than LL15,000.[90] The guarantee for Intra depositors was extended to cover small depositors of all Lebanese banks in legislation passed in 1967, and modeled on the US Federal Deposit Insurance Corporation (FDIC). This

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[89] U.S. Embassy Beirut to Dept. of State, "Effects Intra Bank Crisis on Business Community" (telegram, December 12, 1966), FN 6 LEB, Box 885, Subject-Numeric Files 1964-66, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.
[90] The government was authorized to borrow up to LL50 million from the BDL for this purpose in a law passed in November 1966. See Sakhnini, "Intra Crisis and the Development of the Lebanese Banking System," 49.

move provided some relief for small depositors, but was clearly motivated, in part at least, by a desire to contain some of the domestic political fallout from the Intra crisis and to circumvent the popular discontent that would follow if small depositors were to continue to lack any protections, and clearly could not, by itself, prove a remedy to deeper structural ills.

More substantive reform came first with the 'Intra Law', referenced above, which was passed in January 1967 and which for the first time laid down regulations for dealing with financial institutions facing bankruptcy. This legislation was supplemented with further bills passed later in 1967 to amend its provisions and, in theory, ensure a robust mechanism for preventing catastrophic bank failures in the future. A major banking bill passed in May 1967 allowed for the creation of new regulatory bodies, including a Banking Control Commission, with responsibility for the periodic auditing of all banks and for enforcing the new regulations pertaining to banking operations. The law also mandated the creation of a 'Higher Banking Committee' in the BDL with overall responsibility for supervision of the Lebanese banking sector, as well as the creation of the National Deposit Insurance Corporation.[91]

This array of new regulatory bodies was accompanied by new provisions concerning banking operations. Banks were required to publish their balance sheets, and to submit to periodic inspection by the new banking regulators.[92] New rules were laid down to try and improve the liquidity of the banking system as a whole, partly through mandating and enforcing minimum reserve requirements, and steps were also taken to try and eliminate some of the smaller, weaker banks and to reduce the overcrowded nature of the banking sector.[93] The Higher Banking Committee was charged with ordering the takeover of any bank deemed to be failing by the Banking Control Commission, and with ensuring that they were either liquidated or sold to new owners. The government also used tax incentives to encourage mergers and self-liquidations of smaller banks, and suspended the issuance of new banking licenses for five years. Largely as a result of these mechanisms, the total number of banks operating in Lebanon was reduced from 93 to 73 over the course of the two years following the Intra crisis.[94]

For a number of reasons, however, the reforms instituted by the government could only go so far towards improving the fortunes of Lebanese banking. A central issue was the fact that the successes and profits of Lebanese banking had come about, to an important extent, as a result of the *lack* of regulation hitherto existing in Lebanon, and as such introducing

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[91] U.S. Embassy Beirut to Dept. of State, "Lebanon's New Banking Legislation" May 29, 1967, FN 6 LEB, Box 789, Subject-Numeric Files 1967-69, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.
[92] Ibid.
[93] Sakhnini, "Intra Crisis and the Development of the Lebanese Banking System," 61–2.
[94] Ibid., 89–90.

regulation was unlikely to be a panacea. Foreign depositors, who provided a substantial percentage of the large deposits in Lebanese banks, were attracted by the lack of any restrictions on moving their money into and out of the country as they saw fit, all the while being protected by the only piece of banking legislation passed prior to the 1960s - the Banking Secrecy Law of 1956. This law also served to protect those domestic and foreign investors whose funds had been moved into Lebanon via questionable channels (for example by circumventing the kinds of capital controls instituted by countries like Egypt and Syria to prevent large sums being exported, or to evade domestic taxes), or who were engaged in illegal practices, especially the booming international narcotics trade of which Lebanon was a part. As previously discussed, many Lebanese banks were believed by US anti-narcotics agents to be instrumental in the financing of the drug trade and in the recycling of illicit earnings, and while it is unclear what the full extent of the banking sector's dependence on such activities was, it was almost certainly substantial.[95] Secrecy was thus, in many important respects, the bedrock of Lebanese banking and effective regulation was challenging, if not impossible, in such circumstances.

But, even if regulation could have been more effective, larger shifts were taking place at a regional and global level which had negative consequences for the Lebanese banking sector that domestic government action could not resolve. As discussed earlier, rising interest rates in Europe and North America, a consequence of inflationary pressures in those countries, were pulling funds out of the region and into Eurodollar markets where greater returns could be had.[96] In tandem with such developments were moves, by both Western financial institutions and from petrodollar exporters, to reduce the significance of intermediary banking centers like Beirut, as the former sought to win a greater share of oil rents, while the latter began to develop their own banking sectors and had less need of traditional financial intermediaries like the Lebanese.[97] The systemic weaknesses exposed by the Intra crisis, coupled with the general atmosphere of regional instability and uncertainty engendered by the June War the following year, which raised fears that Lebanon could easily become directly embroiled in a future Arab-Israeli conflagration, accelerated the shift away from a reliance on Lebanese bankers by the region's wealthy elite.

These changes formed the backdrop to the other major shift experienced by the Lebanese banking sector as a result of the Intra crisis: the increasing domination of foreign banks in Lebanon. The fall of Intra itself had initiated this trend, because of what had seemed a near-unassailable position as the largest Lebanese bank, which alone controlled

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[95] Marshall, *The Lebanese Connection*, chap. 4 & Appendix.
[96] International Monetary Fund, *Annual Report 1967*, chap. 1, http://www.imf.org/external/pubs/ft/ar/archive/pdf/ar1967.pdf.
[97] The efforts of US financial institutions to channel a greater share of oil rents into their vaults reached its height in the wake of the oil shock of 1973. See David E Spiro, *The Hidden Hand of American Hegemony: Petrodollar Recycling and International Markets* (Ithaca, NY: Cornell University Press, 1999).

40% of domestic deposits and had larger total assets than many of its competitor institutions combined. But, in the wake of Intra's collapse, and the systemic crisis that ensued, a number of foreign banks, particularly American and European, used the opportunity to gain a greater foothold in the Lebanese market.[98] By the end of 1968, over half of all the banks operating in Lebanon were either wholly or partially foreign-owned, whilst the share of total bank deposits controlled by foreign institutions rose to 84%.[99] Control of the biggest accounts was even more concentrated in foreign hands; of the 17 banks which had deposits of LL50 million or greater, only 2 were Lebanese, the rest were owned or controlled by foreign institutions. Both domestic and overseas customers were increasingly attracted to foreign banks in the wake of the Intra crisis and the resultant weakening of confidence in Lebanese institutions in general. Foreign banks usually had far greater resources than domestic banks, and possessed the connections and infrastructure to easily place clients' funds in lucrative European and North American money markets.

The increasing dominance of foreign banks in Lebanon was linked to a growing share of deposits, surpassing half of all deposits by the end of the 1960s, that were denominated in foreign currencies and invested outside Lebanon.[100] Thus, Lebanon's intermediary role in regional finance was diminished, and the share of the financial business handled in Beirut was increasingly dominated by foreign institutions, while Lebanon itself derived increasingly little benefit from the flow of funds passing through Beirut banks, even as the volume of those funds expanded to reach new heights in the early 1970s.[101] The Intra crisis had marked the end of an era where Lebanese bankers were dominant regional figures in finance, and given the economy's previous heavy reliance on such business services, it was not clear what would replace them, prompting fears about the future of Lebanon's economy.

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[98] U.S. Embassy Beirut to Dept. of State, "Finance: Banking Problems, October 1968" October 17, 1968, FN 6-1 LEB, Box 789, Subject-Numeric Files 1967-69, General Records of the Department of State (Record Group 59), National Archives at College Park, MD. The increased presence of foreign banks was also an obstacle to more effective regulation. Foreign banks, for whom Lebanese operations were often one small part of total global activities, were difficult to control and regulate by a Lebanese central bank with limited resources and little international political clout.

[99] Sakhnini, "Intra Crisis and the Development of the Lebanese Banking System," 92–3.

[100] Ibid., 79 & 94–5.

[101] One stark illustration of this point was the increasingly large international commercial loans that Beirut banks were making by the early 1970s, at the same time as the domestic productive sectors were starved of long-term funds. During the first six months of 1973, for example, over LL200 million worth of foreign commercial loans were made by large Beirut banks, including a LL22 million loan to the Iranian Sugar Company, and a LL50 million loan to the Algerian Bank for Foreign Commerce. See U.S. Embassy Beirut to Dept. of State, "Periodic Economic Review: First-Half 1973, End 1972" July 19, 1973, E 2-2 LEB, Box 763, Subject-Numeric Files 1970-73, General Records of the Department of State (Record Group 59), National Archives at College Park, MD, p6.

Economic Shifts

Beyond the changes taking place in the banking sector, there were broader shifts in the economy as a whole. Although these did not represent, by any means, a fundamental change in the political economy of postcolonial Lebanon, they were, nevertheless, part of a reconfiguration that took place in the wake of the Intra crisis. Some of the changes that took place were accelerations of trends that predated the Intra crisis itself, such as the growing importance of tourism, particularly the increasing numbers of wealthy Arab tourists, mainly from the Gulf, who flocked to Lebanon in the summer. By the early 1970s, the number of tourists arriving in Lebanon had reached record levels, with just under 1.5 million foreign tourists arriving in 1974 for example, spending an estimated LL880 million, equivalent to roughly 20% of real Net National Product (NNP).[102] Tourism had been a significant part of the economy for some time, but its importance steadily grew in the late 1960s and into the 1970s. Construction and real estate also continued to be important to the economy, and whilst income in this sector declined in the immediate years after the Intra crash, a consequence of the credit squeeze that the crisis engendered, the early 1970s saw record numbers of new building permits issued as a renewed 'mini-boom' in construction took place.[103]

Perhaps the most dramatic changes took place in the industrial sector however. For most of the period prior to 1967, Lebanese industry had been a relatively minor part of the economy, with the bulk of industrial exports constituting lightly processed agricultural products.[104] A significant new trend began to emerge in the wake of the financial crisis, and total exports began to grow rapidly, from approximately LL450 million in 1967, to over LL2.1 billion by 1974.[105] There was also an increasing shift away from primary exports, historically, agricultural goods such as fruits, vegetables and animal products, towards industrial goods. In 1965, for example, roughly 42% of exports were manufactured goods, but by 1974 this figure had risen to around 79%.[106] According to one estimate, the value of Lebanon's industrial exports to the rest of the Arab world (Lebanon's largest export market) grew almost 1000% between 1967 and 1974, from LL87 million to LL826 million.[107] This was particularly remarkable given the lack of any effective government support for Lebanese industry, as well as the long-standing free trade policy which kept tariffs and import quotas to a minimum, and the steady appreciation of the Lebanese lira

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[102] Mallat, *The Economic Challenge*, 70.
[103] U.S. Embassy Beirut to Dept. of State, "Annual Economic Report," June 16, 1972, 7.
[104] André E. Chaib, "Analysis of Lebanon's Merchandise Exports 1951-1974," *Middle East Journal* 34, no. 4 (October 1, 1980): 440–42.
[105] Mallat, *The Economic Challenge*, 64.
[106] Chaib, "Analysis of Lebanon's Merchandise Exports 1951-1974," 441.
[107] Nasr, "Backdrop to Civil War," 10.

during this time period, all of which created challenging conditions for exporters.[108] Nevertheless, exports saw remarkable growth, as new industrial processing zones emerged in the suburbs of Beirut, staffed by the growing waves of rural migrants flocking to the capital to look for work and a better life.

The precise causes of this industrial upsurge are complex and not fully clear, and there is no suggestion here that there was a simple causal mechanism whereby the Intra crisis led directly to a manufacturing boom. The exact reasons for the industrial upsurge have not been systematically studied, but in the absence of a state-sponsored program of industrial development it is likely that part of the explanation for this phenomenon was connected to the more limited opportunities available for profit-making elsewhere in the economy by the domestic Lebanese elite in the wake of the Intra crisis, when, as mentioned, foreign financial institutions came to dominate Lebanese banking, a traditional source of wealth for the Lebanese bourgeoisie. Although Lebanese bankers were increasingly subordinated to their foreign counterparts in regional financial affairs, Beirut remained a center for the channeling of regional capital surpluses (especially petrodollars) and funds passing through Beirut-based banks reached record levels by the 1970s.[109] Many of the deposits placed in Beirut banks were invested overseas, particularly in Eurodollar markets, but there remained an ongoing problem of surplus liquidity, and although bankers had a strong preference for using funds at their disposals to finance short-term trade activity, there was simply too much cash and too few profitable opportunities for all the surplus liquidity to be fully utilized in this way.[110]

Industrial investments in light manufacturing offered one avenue for some of these funds, and in a way that did not fundamentally alter the overall structure of the economy. Although there were new investments in sectors such as metallurgy, machinery, and pharmaceuticals, the trend was towards the growth of consumer-goods production for export that tended to complement, rather than challenge, traditional trade activity. The low-wage environment of Beirut, a result of the large, and ever-increasing, reserve army of labor that resulted from the waves of migration to the capital in the 1960s and '70s, coupled with minimal business regulations, relatively well-developed infrastructure and easy access to regional markets, made it an attractive venue for investment in consumer-goods production. These factors were supplemented by the significant rise in international transportation costs that resulted from the closure of the Suez Canal in 1967, following the Israeli attack on Egypt and occupation of the Sinai Peninsula. This meant that there were cost-savings to be made by establishing consumer-goods processing facilities in a country

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[108] Following the dollar devaluation in February 1973, the Lebanese lira, which had already been appreciating against the dollar, rose from LL3.01/$1 in January 1973 to LL2.28/$1 by July of that year. In addition to the dollar devaluation, the increasing flow of petrodollars into Beirut added to the upward pressure on the Lebanese currency. See U.S. Embassy Beirut to Dept. of State, "Periodic Economic Review: First-Half 1973, End 1972," 6–7.
[109] Mallat, *The Economic Challenge*, 218.
[110] U.S. Embassy Beirut to Dept. of State, "Annual Economic Report," June 16, 1972, 7..

like Lebanon, which could then export these goods to the wider Middle East market, rather than exporting finished goods directly from the West. In 1969, for example, eleven new industrial plants were established in Lebanon, producing textiles, pharmaceuticals, candy, paper and wood products, and furniture, with a significant share of production intended for export.[111]

The Intra crisis thus marked a turning point for the Lebanese economy. In the immediate aftermath of the crisis, the financial sector remained depressed and there was a net outflow of capital to Western money markets, whilst the June War of 1967 depressed regional trade conditions and resulted in the closure of the Suez Canal. In such conditions, industry offered an attractive investment outlet, and production, along with exports, soared dramatically in the first two years after Intra's collapse. Although large net capital inflows resumed by 1970, the banking sector was both firmly under foreign domination, limiting profit-making opportunities for the domestic elite, whilst also being awash with liquidity struggling to find a profitable outlet. Industry was increasingly well positioned to attract some of this capital, and it continued to register significant growth through 1974. Again, it is important to acknowledge that this growth did not fundamentally upset the balance of the economy, as new production was not intended to fully replace imports, and much of it was destined for export markets, especially in the Gulf region.[112] Overall, services remained the dominant sector of the economy, and indeed increased their share of NNP into the early 1970s, but the growth of industry was nevertheless significant. One of its key effects was to increase the class of wage-earners, from across sectarian lines, living and working in Beirut, usually for low wages whilst living in neighborhoods with low-quality housing and inadequate public infrastructure. These broader social changes would in turn provide favorable grounds for the dramatic growth in support for radical political groups, especially of the left, that would ultimately come to pose a serious threat to the status quo by 1975.

Political Consequences

The major political consequence that flowed from the Intra crisis was an increase in popular discontent and instability. The crisis was certainly not the only cause of rising popular dissatisfaction, nor did such dissatisfaction begin in 1966, but had long been

[111] U.S. Embassy Beirut to Dept. of State, "Annual Economic Report" November 20, 1970, E 2-4 LEB, Box 763, Subject-Numeric Files 1970-73, General Records of the Department of State (Record Group 59), National Archives at College Park, MD, p4.

[112] By 1973, roughly 70% of Lebanese exports were destined for Middle East or North African countries, with Saudi Arabia, Kuwait, Libya and Iraq alone accounting for 44% of exports. Chaib, "Analysis of Lebanon's Merchandise Exports 1951-1974," 447.

simmering as a result of widespread unhappiness with the postcolonial status quo from the popular sectors of society that had gained little from it. But, the growing foreign control of Lebanese banking, and, after 1970, the resumption in the huge flows of capital passing through Beirut banks were stark symbols of the gross imbalance in the fortunes of the Lebanese people. The gleaming new office buildings in Beirut's financial district contrasted sharply with the growing slum districts in the south and east of the city, and illustrated clearly the fact that while a tiny minority had successfully tied themselves to foreign interests and could profit from the flows of capital, most Lebanese were struggling to make ends meet and benefitted little from the burgeoning wealth that Beirut banks were handling. This reality led to increasing political attacks on foreign, especially American, banks by leftist and nationalist forces, who accused these banks of depriving the country of vital funds which could have been used to provide long-term credit to industry and agriculture, or for desperately needed development projects.[113]

At the same time, some of the economic changes that took place in the wake of the Intra crisis, served as a catalyst for social unrest by increasing the numbers of workers employed in Beirut's highly profitable industrial sector, working for low wages often in poor working conditions. The established labor movement failed to make inroads into organizing these workers (see Chapter Four) and the situation was thus favorable for more radical leftist and nationalist groups to organize and operate among Beirut's poor. The spectacular wealth of the financial and commercial elite contrasted with miserable conditions in rural Lebanon and in the public sector, both of which were sites for major strikes in January 1973, when 16,000 public school teachers, and thousands of small tobacco farmers, took direct action against the government.[114]

Again, the Intra crisis did not cause this rising unrest by itself, and the regional instability provoked by escalating Arab-Israeli tensions had a deep impact on Lebanon too, by periodically disrupting trade and capital flows, depressing the increasingly important tourist trade, and by prompting the arrival of increasing numbers of Palestinian armed resistance fighters (the fida'yeen) into Lebanon, especially after the June War of 1967 and again after the 'Black September' uprising in Jordan in 1970. It has been suggested that the impact of the arrival of the fida'yeen in Lebanon in the late 1960s was heightened by the Intra collapse in a specific sense. The crisis, and the government handling of it in particular, convinced Palestinians and marginalized elements in Lebanese society, that 'outsiders' would never be allowed to fully share in the wealth that Beirut attracted, and the criminal prosecution of Beidas, and the Palestinians among his senior staff, highlighted the lengths

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[113] This campaign began within weeks of the Intra collapse; see for example, U.S. Embassy Beirut to Dept. of State, "Press and Rumor Campaign Against American Banks Injects New Element into Intra Crisis" December 15, 1966, FN 6-3 LEB-US, Box 886, Subject-Numeric Files 1964-66, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.
[114] U.S. Embassy Beirut to Dept. of State, "Lebanese Discontent, Strikes and Leftist Politics."

to which the establishment would go to protect their own positions from external incursions.[115] It is difficult to know to what extent this was indeed a factor, but it is plausible that the Intra collapse served to further highlight how alienated and vulnerable Palestinians were within Lebanese society, and the arrival of powerful armed resistance factions who offered a different political solution, contrasted sharply with Beidas' attempt to break in to the Lebanese system from the inside. What is certain is that the years after the Intra crisis was a period of deepening social unrest, rising political tension, and, ultimately, systemic collapse and social revolution. At the most basic level the Intra crisis added to this trajectory by exposing the deep contradictions and inequalities of the postcolonial Lebanese system, and by highlighting the fundamental inability of the ruling elite to resolve these problems and offer a better future for the majority of the country's inhabitants.

Conclusion

This chapter has outlined the rise and fall of Intra Bank, Lebanon's largest bank at the time of its spectacular implosion in October 1966, and the consequences that the ensuing systemic financial crisis had on Lebanon's economy and political climate. In many respects the fortunes of Intra Bank mirrored those of the Lebanese banking system as a whole. Intra, like many Lebanese banks, registered high rates of growth during the 1950s, and especially in the early 1960s, but on the basis of questionable foundations. Intra, like its competitors, had a serious liquidity shortage by the middle of 1966, largely because of a business strategy that called for large-scale investments in relatively illiquid assets, such as a industrial concerns and high-value real estate, in order to make the returns necessary to offer the high rates of interest that would in turn attract the wealthy foreign depositors who were the mainstay of both Intra and the other major banks within the Lebanese financial sector. A sudden spike in interest rates in Europe and North America during 1966, coupled with the desire of Western financial institutions to win a growing share of business away from regional banking sectors like Lebanon, created the conditions for crisis. Intra, like most other Lebanese banks, was quickly faced with a rising, and ultimately unsustainable demand for cash, accelerated by a spate of withdrawals by wealthy Gulf depositors, possibly prompted by the Saudi ruler, King Feisal, who at the very least appears to have consented to the moves to abandon Beirut banks. In such circumstances Intra's perilously low liquidity ratio, of around 7%, inevitably led to a suspension of payments and the closure of the bank, and in the aftermath of this dramatic event, powerful interests, coupled with government inexperience and ineptitude, maneuvered to ensure Intra would

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[115] Charles Winslow, *Lebanon: War and Politics in a Fragmented Society* (London ; New York: Routledge, 1996), 154–5.

not open its doors again, at least not under the management of Beidas and his Palestinian lieutenants.

The ultimate solution to Intra's woes also mirrored the fate of Lebanese banking as a whole in the late 1960s, as Intra was re-launched as an investment company in which foreign interests held a major stake. By the early 1970s, this was a pattern that had repeated itself throughout the banking sector, with almost every major bank coming under either direct or partial foreign control, such that roughly 84% of all deposits were held by foreign-controlled banks by the early 1970s. At the same time, fewer profitable opportunities in finance, coupled with the surplus liquidity generated by ever-increasing volume of capital entering the country, led to a spike in export-oriented industrial production, and the expansion of a class of low-wage workers in Beirut's teeming slums. This, along with the growing awareness of the deep, and deepening, levels of inequality in the country that the crisis laid bare, fueled the social unrest that underlay the rise of a reformist movement that would ultimately force a violent end to the status quo. In many respects then, the Intra crisis was, as Intra board member Najib Alamuddin argued, the beginning of the end of a certain kind of postcolonial order in Lebanon.

Chapter Four: Politics, Labor, and the State in Postcolonial Lebanon

Introduction

In April 1975 the prevailing postcolonial order in Lebanon violently collapsed and a new political, economic and social reality began to take its place. The ensuing civil war was, in reality, a series of conflicts, the first, and perhaps most crucial of which was an abortive political revolution that pitted the Lebanese National Movement (LNM) and its allies in the Palestinian Resistance Movement (PRM) against the rightist forces led by the Lebanese Kata'ib Party (LKP, also known as the 'Phalange'). This struggle, which initially swung in favor of the leftist forces, was ultimately resolved in favor of the rightwing by the intervention of the Syrian army, following rising regional alarm at the prospect of the emergence of a radical new political entity in place of the old Lebanese order. With the subsequent decline of the LNM, and the forced eviction of the PRM in 1982 in the wake of Israel's brutal invasion of Lebanon, the civil war took on an increasingly sectarian character, as forces and groupings that transcended sectarian divisions were marginalized or vanished altogether. The war's end, in 1990, witnessed a reconfiguring of the political system following the conclusion of the Taif Accord between the main contending factions, and the aggressive reassertion of the free market economic model that defined the pre-civil war period, but with an even greater dependence on finance capital, all under the watchful eye of the Syrian military which intervened decisively in 1990 to enforce the war's end.[1]

This chapter will focus the period that led up to the violent conflagrations of the mid-1970s and examine the ways in which some of the potential challenges to the status quo were managed and neutralized by the ruling elite. The first section of this chapter deals with one of the most important of these challenges, which came in the immediate aftermath of independence, when the Lebanese Communist Party (LCP) was at the height of its popularity and political strength and had a hegemonic influence over a relatively united and militant labor movement. Rather than trying to co-opt the communists into the parliamentary political system, a strategy followed elsewhere in the region, the ruling class chose to break their power through repression, election rigging, and the building of anti-communist labor organizations. This development had the effect of excluding from mainstream politics the largest, best-organized non-sectarian political force in the country a move which became, in effect, an ongoing element of ruling class strategy. The LCP was a threat because, on the one hand although it effectively disavowed revolutionary social change it remained solidly opposed to the unregulated, laissez-faire economic liberalism of postcolonial Lebanon and supported a statist, nationalist economic policy. Furthermore, on

[1] The Assad regime was given the 'green light' to intervene in Lebanon by the administration of George Bush Sr. in return for Syrian support in the First Gulf War.

the ideological plane the LCP, as an avowedly pan-sectarian party with a guiding philosophy which privileged class identities at the expense of all others, represented a potent threat to the sectarian political order the ruling class was trying to uphold. The development of electoral politics in postcolonial Lebanon, and the formulation of electoral laws coupled with accepted electioneering practices, which including vote-buying on a grand scale, alongside the judicious use of the security apparatus and private thugs to 'guide' voters and restrict the ability of undesirable elements to campaign freely, were all designed to keep non-sectarian reformist parties outside of the formal political structures and institutions of the country.

The second section of this chapter deals with the Lebanese labor movement, which was relatively developed and enjoyed a freedom to organize that was marked by regional standards. The union movement was the only legitimate class-based institution in the country, and as such the ruling class fought to restrict its activities to the purely economic realm and to ensure that the energies of the union bureaucracy remained restricted to fighting communism, restraining rank-and-file militancy and keeping the unions out of politics. This became increasingly more challenging as the crises and contradictions of Lebanese capitalism generated greater pressures from below on the union leadership, but whilst it did produce crises and ruptures within the union leadership, the ruling class was ultimately successful in containing the Lebanese labor movement and sidelining it as a potential political force. The section will examine how the state sponsored new labor groups to break the hold of the political left on the union movement and to contain labor radicalism generally by keeping the movement weak, divided and dependent on state largesse. It will trace the fate of the leftwing forces in the labor movement, whose fortunes ebbed in the 1950s but rebounded somewhat after the first civil war of 1958, as well as the emergence of a reformist wing of the conservative bureaucracy, who saw the need to make significant structural changes if the union movement was to resist labor radicals effectively. Ultimately, as this section will show, both of these forces, the left and the reformists, were marginalized in the labor movement, which remained conservative, quiescent and increasingly unrepresentative of the Lebanese working class.

One of the key contentions of this chapter is that the Lebanese ruling class worked to build a political system that was nominally a representative, parliamentary democracy, but in reality was a tightly circumscribed, and politically rigid, oligarchy. In fighting the communists in the 1940s the ruling elite chose a path of exclusion and marginalization which left the Communist Party outside of the central political institutions of the country, and this became the norm for the remainder of the period up to the civil war of 1975. Rather than attempting to co-opt dissident or reformist forces into the parliamentary system, they were purposely excluded, and whilst this enabled the Lebanese bourgeoisie to enjoy unchallenged access to the levers of power and to ensure their economic interests were fully upheld by the state, it drove reformist forces to seek alternative means of building opposition to the ruling class and the status quo, alternatives, based in the 'street' that were much harder for the state to contain and control. A similar development occurred in the labor movement where the state supported conservative forces that consistently drove radicals and reformers to the margins and prevented them from gaining any significant footholds in the leadership bodies of the official trade union movement. This left

the labor movement increasingly unrepresentative and unresponsive to the growing immiseration and frustration of the working class and in response, in the final years before the collapse of the postcolonial order in 1975, labor protests began to increasingly erupt outside of the framework of organized labor, in ad hoc shop floor committees that staged unauthorized 'wild cat' strikes and protests. For three decades this strategy of exclusion and marginalization enabled the ruling class to enrich itself to an astounding degree, but it left the state increasingly unable to manage the rising discontent that sought alternative avenues, outside the official parliamentary machinery, to express itself. Ultimately it was this dynamic that brought about the downfall of the first postcolonial Lebanese regime in 1975.

The Rise and Fall of the Lebanese Communist Party

The Communist Party was an important force in Lebanese politics from its inception in the 1920s until well into the 1980s. The party, officially founded by immigration clerk Yusuf Ibrahim Yazbek and union organizer Fuad al-Shemali in 1925, was able to build links of varying solidity with the labor movement, the peasantry and the urban poor.[2] For its allies and foes alike it was an important focal point for resistance to the French Mandate, and later, following formal independence in 1943, to the pro-Western regimes of successive Lebanese presidents. The party was also a springboard for various groups which came to form the 'New Left' in the 1960s and '70s, the existence of which was in part a reaction to the Stalinization of the CP in the 1930s and '40s.[3] The LCP was, in short, perhaps the most important single force on the Lebanese left from the 1920s at least until the outbreak of civil war in 1975, even as its fortunes waxed and waned considerably during that time, and its history therefore deserves close study. And crucially, for the purposes of this chapter, the response of the Lebanese ruling class to the emergence and increasing prominence of the LCP reveals much about the former's strategy for maintaining its hegemony in postcolonial Lebanon.

[2] Relatively little has been written about Shemali's life, despite his central role in the Egyptian and Lebanese labor movements, and his role in helping to found the LCP. See, for instance, Ismael, *The Communist Movement in Syria and Lebanon*, 3–24; Muḥammad Dakrūb, *Judhūr Al-Sindiyānah Al-Ḥamrā', 1924-1931* (Bayrūt: Dār al-Farābī, 1974).
[3] Tareq Y Ismael, *The Arab Left* (Syracuse, N.Y.: Syracuse University Press, 1976), chap. 6.

Early History

The Communist Party[4] emerged in the mid-1920s in an atmosphere of rising radicalism among the small Lebanese working class, much of which is attributed to the figure of Fuad al-Shemali. Shemali was a Lebanese socialist who had played a key role in organizing Lebanese and Syrian workers in Alexandria where he worked in the tobacco industry.[5] He led the Alexandria-based Lebanese Workers' Party until he was arrested and expelled by the British in 1923. By coincidence, Yusuf Ibrahim Yazbak, a socialist intellectual, was working as a clerk at the immigration post through which Shemali passed on arrival in Beirut and having heard of his organizing efforts he quickly befriended him. The two were to collaborate actively in efforts to build working class organizations in Lebanon.[6] In addition to playing a key role in the formation of a number of labor organizations, Shemali also became a member of the recently established, French-sponsored General Workers' Party of Greater Lebanon, which had the stated aim of defending the interests of workers in national representative institutions. However, its political program was explicit in stating the party's commitment to building "friendly economic and trade relationships" between Lebanon and France, as well as "unity between workers and capitalists", and the party was a relatively transparent effort to co-opt the working class by the colonial state.[7] The Party's monthly subscription fees were five lira for a general member and fifteen lira for a position on the Executive Committee, far beyond what the average Lebanese worker could afford to pay, and in the 1925 elections to the Party's Administrative Council the successful candidates included "five large landowners, five wealthy merchants...workshop owners, industrialists, lawyers and doctors."[8]

The involvement of more radical figures like Shemali with the General Workers' Party was short-lived however, and in 1924 he along with a number of other militants, including Yazbek, formed the Lebanese People's Party, effectively a front for the Lebanese Communist Party which was formed the same year and which was prohibited from

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[4] This section deals primarily with the Lebanese Communist Party (LCP), but at various moments the LCP operated as part of a unified Communist Party of Syria and Lebanon (CPSL), and at other times operated somewhat separately from the Syrian party. The joint CPSL was divided into an LCP and an SCP during the 1943 National Congress, and was then re-unified in the wake of the disastrous events of 1948 (see below). For the purposes of this section when I refer to 'Communist Party' I am primarily referring to the Lebanese section of the party, which was nevertheless deeply connected to the Syrian party, at least until the 1960s when it began to operate with a much greater degree of independence from its Syrian counterpart.

[5] Hanna Batatu, *The Old Social Classes and the Revolutionary Movements of Iraq: A Study of Iraq's Old Landed and Commercial Classes and of Its Communists, Ba?thists, and Free Officers* (Princeton, N.J: Princeton University Press, 1978), 382.

[6] Ismael, *The Communist Movement in Syria and Lebanon*, 6–7.

[7] Ilyas Buwari, *Tarikh Al-Harakah Al-'Ummaliyah Wa Al-Niqabiyah Fī Lubnan, Vol. 1* (Bayrūt: Dār al-Fārābī, 1980), 106.

[8] Ibid.

operating openly by colonial law.[9] Initial reticence about challenging the colonial state was apparently overcome however, and the Lebanese People's Party decided to openly identify itself with the communist cause during a celebration of May Day in 1925 at the Crystal Theater in Beirut.[10] The party began to rapidly expand its activities in the context of rising popular discontent with both the French occupation and the poor economic situation that flowed from the abrupt carving out of a new Lebanese state under the aegis of French imperialism, and the attendant disruption of regional trade networks. The party helped, for example, to organize a major demonstration in Beirut against rent increases which took place on July 25th of the same year and ended in bloodshed when the French authorities ordered Senegalese troops to open fire on the crowd, killing ten and wounding more than forty people.[11] The party also openly called for the victory of the Syrian Revolt which also began that year, prompting the French authorities in Lebanon to clamp down on the LPP and arrest many of its leaders for incitement.[12] In the wake of this repression the remaining party leadership decided to abandon the LPP front and openly operate as the LCP.[13]

Despite the repeated efforts of the colonial state to eradicate them, the communists continued to operate and to grow in strength during the Mandate period. Under Shemali's leadership, the party developed new branches and spread to other cities and towns in Lebanon, as well as developing connections with the growing labor movement. A key development took place in the early 1930s, when a group of new communist activists centered around the figure of Khalid Bakdash, a Damascus-born Kurd, took control of the party. Bakdash had been trained in Moscow at the University of the Toilers of the East, and was a committed disciple of Stalin. Upon his return from Moscow he organized an extraordinary meeting of the party's Central Committee during which he accused Shemali of being an agent of the Surete Generale, the French security service, and ordered his expulsion from the meeting and the party.[14] Bakdash was subsequently voted in as head of the new Communist Party of Syria and Lebanon, and was to remain a dominant figure in the CP for several decades.

With the onset of the Great Depression and the deep economic and social crisis this precipitated in Lebanon, a range of powerful new popular actors began to emerge to fight for the rights of women, workers, the peasantry and other oppressed people.[15] Likewise, the 1930s witnessed the continued growth of the Communist Party, and its greater

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[9] "The Communist Movement in Lebanon [in Arabic]" n.d., Box 9, File 1, Farid Chehab Collection, GB165-0384, Middle East Centre Archive, St Antony's College, Oxford, UK, p11-12.
[10] Ibid., 12.
[11] Buwari, *Tarikh Al-Harakah Al-'Ummaliyah Wa Al-Niqabiyah Fī Lubnan, Vol. 1*, 124.
[12] "The Communist Movement in Lebanon," 17–19.
[13] Ibid., 18. According to the Chehab document, the membership of Yusuf Yazbek was suspended during this same meeting, though no explanation is given as to why this was.
[14] Ibid.
[15] See Thompson, *Colonial Citizens*, chap. 9.

implantation in some of the new social movements, and especially within the labor movement in which it began to acquire a hegemonic position.[16]

World War Two

The Second World War saw the CP emerge as a preeminent mass political force which enjoyed strong support from the working class and other parts of the population. This was a consequence of a number of factors. Firstly, the growing weakness of the French position in the Levant, especially following the fall of France to Nazi Germany in 1940, severely limited the options available to the colonial authorities to repress dissent and maintain the colonial order as it had been hitherto constituted. When British and Free French forces ousted the short-lived pro-Vichy regime in Lebanon and Syria in June of 1941, the new French governor, Catroux, was faced with the task of reestablishing French control and French legitimacy in the Levant states, with extremely limited resources and a near-total reliance on the British for military support.[17] His subsequent efforts to buy the quiescence of the local populace with piecemeal reforms and extensions of rights and public services instead served to embolden the social movements that had emerged over the previous decade, leading to an upsurge in popular mobilization, demonstrations and strike action.[18] The Communist Party, as the main political force operating in the labor movement, was one of the main beneficiaries of this upsurge in popular mobilization and activity.

Secondly, following the breakdown of the Nazi-Soviet nonaggression pact and the German invasion of Russia in 1941, the consequent entry of the USSR into the war on the side of the Allies played a major role in boosting the prestige and attraction of the communist cause. The failure of the Nazi invasion and the subsequent victories of the Red Army in Europe signaled the growing power of the Soviet state and its potential to become an increasingly significant global actor after the war's end. Coupled with the fact that the USSR, unlike Britain and France, was not implicated in the colonial enterprise in the Middle East, Soviet military victories and general resilience in the face of the German onslaught, as well as its proclaimed status as a state of workers and the oppressed, made the USSR an

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[16] "The Communist Movement in Lebanon," 21–28; Ismael, *The Communist Movement in Syria and Lebanon*, chap. 2.
[17] Unlike the colonial empires of other Nazi-occupied European powers, such as Belgium and the Netherlands, the French Empire split in two following the fall of France in 1940. Some colonial possessions (most of France's African colonies for example) joined the Free French cause led by General de Gaulle's Committee of National Liberation. Other colonies, such as those in the Middle East, including Syria and Lebanon, pledged loyalty to the collaborationist 'Vichy' regime led by Marshal Petain. Fearing that the pro-Nazi regime in the Levant would act as an air and land bridge for German aid to anti-colonial rebels in British-controlled Iraq, and thus threaten Allied control of the entire Middle East region, Allied forces invaded Syria and Lebanon and after a short campaign defeated the Vichy forces in the summer of 1941. See Thomas, *The French Empire at War, 1940-45*.
[18] Thompson, "The Climax and Crisis of the Colonial Welfare State in Syria and Lebanon during World War II," 72.

object of some admiration in the Middle East and elsewhere in the colonial world.[19] Such admiration was something local communist parties, including the Communist Party of Syria and Lebanon, worked to tap into, pledging that the Soviet state would play a role in helping to create a more just postwar order, once the fight against the fascist Axis powers was concluded. The obvious weaknesses of the French imperial order, increasingly apparent to the populace of the Levant states, made the task of portraying European colonialism as a dying force an easier task.

Nevertheless, the Soviets were not the only objects of local admiration, and the increasing power and prestige of the United States, the other major Allied power which, like the Soviets, was perceived to be largely free from complicity with the oppressive colonial system, had also attracted much local attention. Thus a third key factor in explaining the increasing importance of communism in Lebanon was the energy and activity of the Communist Party itself, the organizational discipline and ideological clarity of which made it especially well-suited to make gains during this tumultuous period. The zeal of the Communist Party was aided by the fact that once the Soviets had joined the Allied cause it was no longer politically feasible to maintain the crackdown on local communist organizations, which the pro-Vichy regime had instituted, and the Communist Party was allowed to operate openly and to publish and distribute its literature freely.[20] The ideological stance of the CP, and the broad appeal of its message, allowed it win support across the social spectrum. The party publicly eschewed socialist revolution and went to some lengths to reassure landowners and capitalists that they did not believe the time was ripe for radical social change, and hence they were not in favor of sweeping land reform measures or the forced appropriation of major commercial and industrial enterprises by the state. In part this seems to have been part of a strategy to win broader support by moderating its message, and internal party documents reassured the party cadre that these policies were not an abandonment of socialism but a tactical move to allow the party to make gains in the parliamentary elections of 1943.[21] It was also, however, commensurate with the Comintern's policy regarding the activities of communists in the colonial world, which regarded national unity and democratic reforms (parliamentary government, freedom of speech and assembly, land reform etc.) as the primary goal of the period, rather than a direct push for socialism, something colonial nations were not yet considered sufficiently developed enough for.

The factors outlined above enabled the Communist Party to make great strides during the war, and the outcome of the elections of 1943 were one indication of this. The elections,

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[19] Walter Laqueur, *Communism and Nationalism in the Middle East* (London: Routledge & K. Paul, 1961), 147–8. The fact that the Soviets were the first to officially recognize Lebanese and Syrian independence, in July 1944, also helped to bolster pro-Soviet sentiments.
[20] "The Communist Movement in Lebanon," 46.
[21] Ibid., 50–52.

reluctantly agreed to by the French authorities under nationalist and British pressure, were a landmark event and set important precedents for electoral politics in postcolonial Lebanon. After much debate within the Lebanese political elite, it was agreed that the new parliament would have 55 seats, 30 Christian and 25 Muslim, instituting a sectarian ratio that would remain in place until 1990.[22] Voting was conducted according to a sectarian list system which required candidates to stand as representatives of their respective sect and limited the capacity of the Communists to campaign as a cross-sectarian entity. The adoption of this system also meant that those on the margins of mainstream politics, who frequently lacked the resources to fund their own independent campaigns, were effectively required to bargain with the major elite actors for places on lists which they financed and dominated. The list system thus played an important role in channeling official politics along sectarian lines and restricting the freedom of non-establishment candidates.

But this system was not sufficient by itself to ensure the return of candidates who would work to uphold the interests of the Lebanese elite, and the 1943 elections also witnessed the widespread use of such practices as the buying of votes, intimidation of opponents and the 'policing' of polling places, as well as the outright falsification of results.[23] The brazenness of such practices served to keep turnout low among the urban popular classes, with turnout in Beirut estimated at only 25%.[24] Despite all of these factors, communist candidates won thousands of votes across the country, and especially in Beirut and Mount Lebanon, testament to their growing popular strength and influence. Without the vote-rigging and falsification that undoubtedly took place, it is likely the results would have been even more favorable to the communists and the new parliament would have included a number of communist deputies. As it was, the communists did not succeed in securing a foothold in the new parliament, though they publicly expressed their support for the new legislature, whilst decrying the corrupt activities that had denied them a place within it.[25]

The results of the elections highlighted two major realities. Firstly, they underscored the fact that the communists were now a force to be reckoned with in nascent postcolonial Lebanon. Their growing numerical strength, organizational skills and ideological zeal had led to a point where they were possibly the best-organized and most potent mass political force in Lebanon. They enjoyed widespread support among sections of the urban poor, especially in Beirut and Tripoli, the organized working class and the labor movement, and in many rural areas as well, as the large number of votes they garnered in the Mt Lebanon

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[22] The precise number of parliamentary seats fluctuated considerably over the following decades, but was always a factor of 11, allowing for the 6:5 ratio of Christians to Muslims.
[23] The judicious use of cash funds to influence votes in Lebanese elections continued to reach greater heights after the Second World War, when the United States and other foreign powers poured funds into the campaign war chests of their favored candidates. See, for example, the expose of former CIA operative Wilbur Eveland, *Ropes of Sand*.
[24] Thompson, "The Climax and Crisis of the Colonial Welfare State in Syria and Lebanon during World War II," 79.
[25] "The Communist Movement in Lebanon," 68.

constituency attested to.[26] The growing prestige of the party led a number of reformist bourgeois politicians to unofficially 'court' the party and its popular base. The 1943 Communist Party Congress, for example, was attended by the new Vice President, Habib Abi Shahla, a Greek Orthodox lawyer and politician from Beirut.[27] Abi Shahla was certainly no communist, and remained firmly part of the political establishment; the UK Foreign Office, for example, regarded him as someone who was "consistently helpful to the British authorities."[28] Nevertheless, the fact that Abi Shahla would attend the Communist Party's National Congress was indicative of the status the party now enjoyed and the value that some establishment politicians placed in developing contacts with the communists.

Abi Shahla's flirtation with the communists was also indicative of the other major reality that the elections helped to demonstrate: the extent to which the CP leadership was willing to go, and the degree of ideological 'flexibility' they were prepared to exhibit, to win broad support and to appear as a legitimate political entity within the confines of bourgeois politics, as well as, crucially, the failure of this strategy to prevent the party from being excluded from the formal institutions of Lebanese politics. The CP had gone to some lengths to dissociate itself from revolutionary politics and to argue that it was primarily a nationalist organization which supported national unity and independence, and claimed in its public propaganda that it "was not primarily a party of social reform…[but] above all, and before every consideration, a party of national liberation, a party of freedom and independence."[29] In both Syria and Lebanon the communists had strived to win a place among the bourgeois nationalist forces, a policy which met with at best only limited success, and the LCP generally tried to portray itself in a non-threatening way to the bourgeois class, hoping that this would translate into toleration, if not outright acceptance, by the bourgeois nationalist forces and into success at the ballot box. But this did not happen, and bourgeois politicians and political parties remained publicly hostile to the communists, whilst working behind the scenes to neutralize the potential electoral threat they represented. The strategy that members of the communist leadership, particularly Khalid Bakdash, helped to spearhead of positioning the communists in the nationalist mainstream in order attain greater political power must therefore be regarded as a failure.

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[26] The Mount Lebanon constituency included important towns such as Junieh and Jbail (Byblos), but also many rural communities where the CP had established branches. The CP candidate in Mount Lebanon, Farjallah al-Helu won around 10,000 votes in the 1943 election. See Ibid., 67.
[27] Ibid., 81; Buwari, *Tarikh Al-Harakah Al-'Ummaliyah Wa Al-Niqabiyah Fī Lubnan, Vol. 1*, 209.
[28] Houstoun-Boswall to Bevin, "Leading Personalities in the Lebanon, 1947" September 15, 1947, FO 371/61730, The National Archives, UK, p2.
[29] Ismael, *The Communist Movement in Syria and Lebanon*, 33.

After Independence

Following the parliamentary elections in the summer of 1943, and the election of a new president, Beshara al-Khoury, the following September, relations between Lebanon and Syria on the one hand, and France on the other, reached a crisis point. In November the French Delegate-General, Jean Helleu, reacting to the decision of the Lebanese parliament to strike out references to the Mandate from the Lebanese constitution, staged a coup and imprisoned Khoury, Prime Minister Riad al-Solh, and many other senior political figures.[30] A wave of mass protests, in which the communists played a prominent role[31], along with intense pressure from Britain, forced the French to back down, release the imprisoned politicians, and declare the Mandate to be at an end.[32] The advent of independence did not, however, bring an end to the era of popular unrest, demonstrations and strikes which had marked the previous few years. This was due to the fact that although the continued French presence had been an important source of frustration and dissatisfaction, the immense economic and social pressures exerted by the conditions of wartime also underlay much of the discontent and protests. Nevertheless the Communist Party played a role in limiting the extent of strike activity during the remainder of World War Two, enforcing a moratorium on industrial action within the unions it dominated while the 'global war against fascism' was still ongoing.[33] This did not prevent all strike activity however, and discontent at the rising cost of living continued to grow. When the moratorium was lifted in autumn of 1945, strike activity rose sharply once again, and during the same year the communists helped to organize the first national labor federation in Lebanon, the Federation of Lebanese Unions (FLU) which at its height was the strongest and most well-organized federation in the country, despite the government's refusal to grant it a license, as well as active efforts to undermine it.[34]

The years between 1945 and 1948 were tumultuous ones, and 1946 in particular was a year of strikes, protests and unrest, not just in Lebanon and Syria, but regionally and globally. As the Second World War came to an end in 1945, the economics of wartime began to unravel and unemployment rose sharply, even as the costs of basic goods remained high. In Lebanon, great fortunes had been made during the war by financiers and

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[30] Traboulsi, *A History of Modern Lebanon*, 107.
[31] The initial position of the Communist Party was, however, much more conciliatory to French interests, and in an editorial in the party's newspaper, *Sawt al-Sha'ab* (Voice of the People), on December 15th 1943, Farjallah al-Helu argued that "Lebanon's interest lies in going closer to France not away from it, in strengthening friendship not weakening it." Nevertheless, mounting popular outrage at France's attempt to undermine the political independence of Lebanon, pushed the party to adopt a much more nationalistic line. See M. S. Agwani, *Communism in the Arab East* (New York: Asia Pub. House, 1969), 28–9.
[32] Traboulsi, *A History of Modern Lebanon*, 108.
[33] Ismael, *The Communist Movement in Syria and Lebanon*, 38.
[34] U.S. Legation Beirut to Dept. of State, "The Anti-Communist Labor Movement in Lebanon" March 3, 1947, 890e.504, Box 7205, Central Decimal Files 1945-49, General Records of the Department of State (Record Group 59), National Archives at College Park, MD, p1.

merchants who capitalized on the material needs of the allied war effort and speculated on scare resources such as grain.[35] The gap between rich and poor grew ever wider whilst the great expansion of industrial production to meet war needs swelled the ranks of the working class, and by extension provided an ever-widening base for the still-youthful trade union movement. The Communist Party remained at the heart of the labor movement and the political movements of the rural and urban poor, and so once the fight against fascism was concluded, and the justification for restraining strikes and protests removed, there was an explosion of strikes and protests, and the new postcolonial regimes were faced with the threat of serious unrest, and the possibility of revolutionary social change.[36]

Despite increasing activity within the labor movement the program and strategy of the Communist Party at this time was of a moderate, liberal character, continuing the trend that had emerged during the last years of the mandate. It was a continuing reflection of the desire to position the party in such a way so as to maximize opportunities to break into mainstream political institutions, such as the national parliament, even at the expense of greatly eroding the original ideological premises on which the Communist Party was founded. At the same time, the party was operating in a diverse array of social contexts and combined a rigidity, almost petrification, at the highest levels of the leadership and of policy-making, with a diffuse, decentralized structure at the lower levels of the party.[37] It was likely that the lived experiences of communism of the varied constituencies that comprised the party, and their relative exposure to the ideological underpinnings of the organization, were wildly different. The party was active among workers in the trade union movement[38], among intellectual circles[39], and among the urban and rural poor, with many

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[35] See Chapter One, and Gates, *The Merchant Republic of Lebanon*, 35–60; Traboulsi, *A History of Modern Lebanon*, 109–127.

[36] On the strike wave see Couland, *Le Mouvement Syndical Au Liban, 1919-1946*; 'Abd Allah Hanna, *Al-Haraka Al-`ummaliyya Fi Suriyya Wa-Lubnan, 1900-1945* (Damascus, 1973); Malek Abisaab, "'Unruly' Factory Women in Lebanon: Contesting French Colonialism and the National State, 1940-1946," *Journal of Women's History* 16, no. 3 (August 19, 2004): 55–82.

[37] The party was highly active in a variety of distinct social environments, including both rural and urban areas, as well as among workers, peasants, students and intellectuals.

[38] Here, Communist Party activity was led by the charismatic veteran trade unionist, Mustapha al-Aris. Aris helped to found and lead the Printers' Union and went on to become the head of the Federation of Lebanese Unions, which was backed by the Communist Party and affiliated to the Soviet-backed World Federation of Labor Unions. He became the latter's representative in the Middle East in 1947. According to Lebanese General Security, he was "he is the most active member of the communists and has the greatest impact on the workers...He agitates inside the unions, leading to demands for workers' rights, ratification of the Labor Law, the calling of strikes and the organizing of protests." See "First Communist Cell in Lebanon [in Arabic]" n.d., Box 9, File 19, Farid Chehab Collection, GB165-0384, Middle East Centre Archive, St Antony's College, Oxford, UK, p7-8 (my translation from Arabic original).

[39] Within the Lebanese intelligentsia, the Communist Party often operated through groups such as the 'Partisans of Peace', which ostensibly worked to support world peace and to promote friendship with the Soviet Union and the Eastern Bloc. The scholar and intellectual Ra'eef Khoury was one of the party's key figures in this organization, and among students and intellectuals generally in this period. General Security described Khoury's relationship to the party as being "like the relationship of Maxim Gorky to the Russian party before the revolution. Maxim Gorky was independent from [the Bolshevik Party], but he was a cultural advisor to it… Likewise, Ra'eef Khoury works on an independent basis from the party, but undertakes many activities in a wide arena… Ra'eef Khoury was recently appointed to work to establish a

branches in rural communities. The party often worked to win influence by adopting the issues and concerns of the residents of particular urban quarters or rural communities and agitating around them. According to a report by Lebanese General Security,

> In order to earn the trust of the people the communists establish in the quarters and villages, residents committees to demand the repair of roads, connection to water and electricity supplies, relief work, improvement of bread...and all the issues which are important to the residents. They write petitions for them...and then immediately take steps to agitate for [the demands]...in order to win friends and bring them into the party.[40]

Given the low level of adult literacy, and hence the limited exposure of many of the party's members and sympathizers to party literature and political propaganda, as well as the recruitment strategies adopted by the Communist Party, which downplayed the party's socialist roots and focused on a moderate liberal nationalist message, the party must inevitably have experienced real limits to its cohesiveness and ability to act with one voice.

These two features, ideological flexibility and political pragmatism on the one hand and a relatively loose organizational structure below the level of the leadership bodies, worked to reinforce one another. The absence of a more radical political program, the relative weakness of internal political education, and the relaxation of recruitment requirements made it easier for the party to expand into new communities and social groups.[41] In turn, the influx of members who were not necessarily firm converts to communism, or to Marxist ideas in general, weakened the ideological cohesiveness of the party below the higher echelons, and greatly contributed to the problems the party faced later, when the leadership tried to make dramatic shifts in line with changes in Soviet foreign policy. In a highly critical report to the Central Committee several years later, Khalid Bakdash claimed the party had made the mistake of thinking that "communist workers represent the working class in the Communist Party and in other party bodies… The truth is that they [should] represent the Communist Party in the working class."[42]

Partly as a result of this increasing political pragmatism, Communist Party membership continued to grow dramatically immediately after the war years, possibly

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club...for communists and some of the prominent intellectuals, in order to win converts to [the Communist Party's] ideas and work openly against the capitalist countries in support of the Soviet Union." See "Information about the Communist Party [in Arabic]" March 16, 1949, Box 10, File 4C, Farid Chehab Collection, GB165-0384, Middle East Centre Archive, St Antony's College, Oxford, UK, p1-2 (my translation from Arabic original).

[40] "Objectives of the Communist Party [in Arabic]" n.d., Box 9, File 17, Farid Chehab Collection, GB165-0384, Middle East Centre Archive, St Antony's College, Oxford, UK, p2 (my translation from Arabic original).

[41] The 1943 Congress had defined membership as acceptance of the national charter, participation in one of the party's branches, and the rendering of material aid to the party, commensurate with one's resources and abilities. Since the new national charter, adopted at the same congress, did not mention the word 'socialism' it was entirely possible, under these membership criteria, to be a member of the Communist Party without accepting the principles of Marxism or socialism. See "The Communist Movement in Lebanon," 90; Agwani, *Communism in the Arab East*, 27.

[42] Quoted in Ismael, *The Communist Movement in Syria and Lebanon*, 42.

rising in Lebanon to between 10-15,000 members in 1946.[43] This was coupled with a surge in trade union membership, possibly to as high as 30,000 members, organized in scores of labor unions, the leaderships of many of which were dominated by the Communist Party.[44] The party's newspaper, Sawt al-Sha'ab (Voice of the People) had a circulation of 10,000 on weekdays and 18,000 on the weekends, making it one of the most widely read periodicals in the country.[45] The party's bi-weekly theoretical and cultural journal, *al-Tariq* (The Way), was also becoming one of the most widely read periodicals in intellectual circles.[46] This translated into a sizable political presence, and gave the communists a powerful voice in Lebanese politics. The strategy of marketing the party as a popular nationalist one appeared to be paying dividends in the short term at least, and the growth in members and popular support continued into 1947, which in many respects represented the high-water mark for communist success and influence in Lebanon. In the legislative elections that took place that year, the communists polled well, and only extensive fraud prevented the victories of a number of Communist Party candidates, in spite of the fact that they ran independently against well-funded electoral lists. Even the official results acknowledged that key leaders in the Lebanese party such as Niqola Shawi (North Lebanon), Mustapha al-Aris (Beirut) and Farjallah al-Helu (Jbail) had all received thousands of votes, and had performed well against the victorious government lists.[47] Once again the strategy of political moderation and strategic alliances with bourgeois politicians had garnered recognition and popular support, but the increasingly effective electoral mechanisms of the new Lebanese republic ensured that such support did not translate into a foothold in the institutions of the state.

But this apparent breakthrough was illusory and by the following year a dramatic reversal had taken place; membership numbers dwindled to a few hundred, the party leadership was in hiding or in prison, and party offices and publications were closed. A series of factors combined to bring about this state of affairs and to render the Communist Party a relatively ineffectual presence on the Lebanese political scene for much of the following two decades.

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[43] The exact numbers are impossible to determine with any real accuracy, and the Communist Party's own figure of 15,000 is probably somewhat exaggerated. General Security estimated the figure at around 10,000 members; see, for example, "Historical Overview of the Foundation of the Lebanese Communist Party [in Arabic]" n.d., Box 9, File 2, Farid Chehab Collection, GB165-0384, Middle East Centre Archive, St Antony's College, Oxford, UK. As Lacquer points out, whose own estimate for Lebanon in 1946 was 5,000 members (he doesn't state how this figure was arrived at), these numbers probably significantly understate the broader support for communism in Lebanon at this time, as a large periphery had developed around the party of people who were sympathetic to it, and were prepared to provide it with support, but were unwilling, for various reasons, to formally join. Laqueur, *Communism and Nationalism in the Middle East*, 151. It is also worth noting that given the estimated total population of Lebanon at this time of around 1 million, a party with a membership of around 10,000, or even 5,000, people potentially represented a significant political force.
[44] Couland, *Le Mouvement Syndical Au Liban, 1919-1946*, 294–5.
[45] Ismael, *The Communist Movement in Syria and Lebanon*, 39.
[46] Laqueur, *Communism and Nationalism in the Middle East*, 149.
[47] "Historical Overview of the Foundation of the LCP," 50–52.

Defeat of the Communist Party

The traditional explanation for the setback in the fortunes of the Communist Party in 1947 and 1948 holds that it was the Palestine catastrophe, and in particular the Soviet decision to vote in favor of the partition plan in the United Nations in November 1947, that lay at the heart of communist misfortunes. This was certainly an important part of the story and communists throughout the Middle East were thrown into crisis by the abrupt shift in Soviet policy, with the Palestine Communist Party (PCP) being especially badly affected in this respect.[48] In the case of the Lebanese and Syrian parties, the dominant clique around Khalid Bakdash lost no time in trying to swing the parties behind the new Soviet line, despite having publicly stated their opposition to partition just days before the vote in a *Sawt al-Shaab* editorial, and in the face of significant opposition from other key leaders, such as Farjallah al-Helu, and many of the mid-ranking cadre.[49] It was only after a series of purges and crackdowns against dissenters that Bakdash was able to quell the opposition and impose the new party line. The reaction from the state and from political opponents of the communists, especially Arab nationalists and the Muslim Brotherhood, was swift and vociferous. The party newspaper was closed, its offices were attacked, and in June 1948 the government officially banned the Communist Party outright and arrested a number of its leaders. A number of communists were interred in a prison camp in the Biqa' Valley and were still incarcerated several months later when deputy Suleiman al-Ali from North Lebanon questioned the Prime Minister about their arrest.[50]

However, this narrative needs to be complicated to a significant degree, in order to take into account the realities of official and popular Lebanese attitudes to the Palestinian catastrophe. Much of the force of this narrative rests on the assumption that, at both the official and popular levels, support for the Arab cause in Palestine was uniform and unwavering, and the backlash against the communists stemmed from a desire to punish them for betraying the Arab cause and expressing tacit support for the Zionist position. This is, however, a somewhat contentious claim to make, especially with regards to the attitudes of Lebanon's ruling elite towards the Palestinian cause. At one extreme, among the most conservative, predominantly Maronite, Lebanese nationalists there were advocates of some form of alliance between Lebanese nationalists and the Zionist movement. Dating back at least to 1920, and particularly during the 1930s and '40s, prominent Lebanese Maronites, especially former President Emile Edde, and senior

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[48] See Mūsá Budayrī, *The Palestine Communist Party, 1919-1948: Arab & Jew in the Struggle for Internationalism* (London: Ithaca Press, 1979), chap. 6 & 7.
[49] "Historical Overview of the Foundation of the LCP," 53–64; Ismael, *The Communist Movement in Syria and Lebanon*, 39.
[50] U.S. Legation Beirut to Dept. of State, Airgram A-356 (August 26, 1948), 890e.032, Box 7204, Central Decimal Files 1945-49, General Records of the Department of State (Record Group 59), National Archives at College Park, MD. al-Ali claimed that the communists were arrested as part of a deal with the British who, he claimed, promised to "help the Arabs in the Palestinian affair conditional upon [the] arrests", a charge which the Prime Minister vociferously denied.

members of the Maronite clergy such as Monseigneur Ignace Mubarak and Patriarch Antoun Arida, maintained contacts with the Jewish Agency. In 1946 Maronite Patriarch Antoun Arida signed a political agreement with the Jewish Agency and Edde discussed the possibility of fomenting unrest in Lebanon if Zionist forces invaded the south during the war of 1948.[51] Contacts between the new State of Israel and the rightwing proto-fascist movement, the Lebanese Kata'ib Party, continued after the Palestinian catastrophe.[52]

Undoubtedly though, despite the prominence of some of these individuals within the political elite, the notion of a forming an alliance with the Zionist movement was not a mainstream, official position. As Eyal Zisser has argued there are good reasons to think that the majority view, even in the Maronite-dominated, Lebanese nationalist constituency, was that such an alliance would have alienated Lebanon from the rest of the Arab world, and probably would, as a result, have rendered the Lebanese national project fundamentally untenable.[53] Nevertheless, the relative tolerance of such individuals on the part of Beshara al-Khoury's regime was significant and is indicative of the extent to which the regime was, at best, lukewarm in its commitment to the Palestinian struggle.[54] It is difficult, after all, to reconcile the fact that senior Maronite clergy were permitted to pursue contacts with the Zionist movement with a genuine commitment on the part of the Lebanese regime to the Palestinian cause. Such a view is supported by the response of the government during the 1948 war[55], when only the most minimal measures were taken to support the Palestinian struggle against the Zionist movement, and by the ongoing exclusion and effective persecution of the Palestinian refugees who arrived in Lebanon as a result of the destruction of their homeland.[56]

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[51] For more on Maronite-Zionist contacts see, Matthew Hughes, "Lebanon's Armed Forces and the Arab-Israeli War, 1948–49," *Journal of Palestine Studies* 34, no. 2 (January 1, 2005): 25; Eyal Zisser, "The Maronites, Lebanon and the State of Israel: Early Contacts," *Middle Eastern Studies* 31, no. 4 (October 1, 1995): 898–906.
[52] Zisser, "The Maronites, Lebanon and the State of Israel," 908–912.
[53] Ibid., 890.
[54] In several important respects the creation of the state of Israel was a boon to the Lebanese ruling class. Firstly, it removed Palestinian ports, especially Jaffa and Haifa, as competitors to Beirut as the premier entrepôt for the Middle East region, a factor which was increasingly significant as the flow of Western goods to the region grew exponentially in the years after the Second World War. Secondly, it resulted in the transfer of oil transit pipelines and oil refineries to Lebanon (Tripoli and Saida) from Palestine, providing an important source of foreign exchange to the Lebanese treasury. Finally, it brought the capital and cheap labor of the Palestinian refugees themselves and it was they who, alongside Syrian migrant workers, were largely responsible for the postcolonial 'economic miracle' in Lebanon. See Traboulsi, *A History of Modern Lebanon*, 113–14.
[55] Both Lebanese President Khoury, and Army Commander (and future President) General Fuad Chehab, were extremely reluctant to commit the army to anything more than limited, defensive operations. Whilst the Lebanese army was probably capable of posing only the most minimal threat to Zionist intentions in Palestine, even if utilized to its fullest capacity, Chehab also placed restrictions on the abilities of the irregular forces of the Arab Liberation Army to operate from Lebanese territory and generally ensured that the Haganah (the pre-state military forces of the Zionist movement) had little to fear from the Lebanese front. See Hughes, "Lebanon's Armed Forces and the Arab-Israeli War, 1948–49."
[56] See, for example, Sayigh, *Too Many Enemies*, chap. 1–4.

This tolerance of elite overtures to the Zionist movement suggests that the official persecution of the communists for supporting the less radical position of partition was hypocritical at best, if not suggestive of outright cynicism. It is plausible, therefore, to situate the anti-communist campaign of 1948 within the broader framework of measures taken by the state to suppress the radical left, and communists in particular, during the early years of independence. Taking effective measures against the communists was not an easy proposition for the state however, given the extent of their popular support, their established bases of power, especially within the labor movement, and also because at least some parts of the security apparatus itself had most likely been infiltrated by the communists.[57] The mechanisms available to the state for directly suppressing the communists were also limited in the first years of independence, and the army, gendarmerie, police and security agencies were all badly organized, under-equipped and poorly staffed. The repressive branches of the state were also engaged in a process of trying to entrench and expand state power throughout the country in the early years of independence, in the face of widespread banditry, rural unrest and border clashes with neighboring Syria, all of which stretched Lebanon's police and military forces to their limits.[58] Nevertheless, despite these weaknesses, the Lebanese state was taking measures to reorganize and reinvigorate parts of its repressive branch, and the Palestine catastrophe gave the state the opportunity to openly move against its opponents. As documents from the Surete Generale (General Security) describe,

> At the end of the first week of January 1948, departments of the Lebanese Surete Generale concentrated their attention on communist activities and deemed...the existence of [the Communist Party] and its sub-groups as incompatible with the aspirations of the Lebanese nation. They therefore viewed the party's very existence, as well as its members' activities, as a threat to public safety, and decided to dissolve all its branches and arrest its Secretary-General and some of its leaders.[59]

Prior to this direct attack on the communists though, the Lebanese elite had already begun to take steps to combat the spread of communist influence by more covert and indirect means. In an extensive report sent to the US State Department by officers of the US Legation in Beirut, the efforts of key members of the Lebanese ruling class, including prominent figures such as the business mogul and foreign minister Henri Pharaoun, and interior minister Saeb Salam, a veteran Beirut politician, to fight the communist movement

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[57] The files of Farid Chehab, appointed head of the Surete Generale (General Security) in 1948, include a list of communists who had infiltrated the military and the police – see "Military Leadership of the Communist Party [in Arabic]" n.d., Box 9, File 5, Farid Chehab Collection, GB165-0384, Middle East Centre Archive, St Antony's College, Oxford, UK. Lacquer also makes reference to communist sympathizers in the police - see Laqueur, *Communism and Nationalism in the Middle East*, 161–2.

[58] "Maintenance of Law and Order in Syria and the Lebanon" n.d., Box 2, File 6, Sir Edward Spears Collection, GB165-0269, Middle East Centre Archive, St Antony's College, Oxford, UK, p3.

[59] "History of Communism in the Region [in Arabic]" n.d., Box 9, File 16, Farid Chehab Collection, GB165-0384, Middle East Centre Archive, St Antony's College, Oxford, UK, p12.

in Lebanon were described in some detail.[60] According to the report, a number of factors were aiding the efforts of the ruling class to fight the communist movement, not least of all the structural weaknesses of the movement itself. Such weakness was in part the result of some of the issues outlined in the previous section, in particular the limited ideological hold that the Communist Party had on a significant swathe of its membership that was a consequence of the party's recruitment and organizational methods. Additionally, the leadership style of Mustapha al-Aris, was becoming a source of discord and tension within parts of the communist-dominated labor movement. In part, according to informants who the US Legation officers spoke to, such discord flowed from Aris' extravagant lifestyle, and the labor leader was well known for driving an expensive car, traveling extensively and living in relative luxury, which limited his capacity to relate in any meaningful way with workers struggling to make ends meet in an era of high inflation and low wages.[61]

Beyond Aris' profligate lifestyle were claims about the aggressive tactics used by the communists to ensure their dominance within the labor movement. Such methods allegedly included 'padding' the rolls of particular unions with communists who were not actually employed in the trades the unions purported to represent, as well as outright bribery and coercion to ensure loyalty, although the US diplomatic staff admitted they could find no evidence to support these claims.[62] Whether or not communist activists like Aris were using intimidation to win recruits, it certainly seemed to be the case that communist influence in the unions the LCP dominated was not as strong as Aris might have thought. Both Saeb Salam and Henri Pharaoun were able to proceed with efforts to build anti-communist labor fronts, firmly under their respective patronage and implacably hostile to communism, and did so, according to the Legation's source, by freely utilizing bribery and coercion to induce member unions to break with the Federation.[63] By making use of former allies of Aris, who were recruited as retainers by Pharaoun or Salam, or became agents of General Security, it was possible to 'win over' a layer of union leaders and members to the new anti-communist labor organizations, the League of Lebanese Labor, or 'Labor League', promoted by Saeb Salam, and the Labor Front, promoted by Pharaoun.[64]

The campaign to win union members away from the communist-dominated Federation was aided too by the structure of the Lebanese working class itself, which was small and

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[60] U.S. Legation Beirut to Dept. of State, "The Anti-Communist Labor Movement in Lebanon."
[61] Ibid., 4.
[62] Ibid.
[63] Ibid.
[64] One such case involved the president of the new anti-communist Labor League, Elias 'Eid, a former member of the communist Federation of Lebanese Unions, who was caught embezzling thousands of pounds from the union treasury and was subsequently forced to resign his position. 'Eid returned to his erstwhile comrades, who claimed that 'Eid's defection to the Labor League had all along been part of a communist plan to infiltrate and subvert Saeb Salam's organization. In reality, according to the Legation's informant, a 'highly placed source', General Security had recruited 'Eid to infiltrate communist ranks in return for not pursuing the fraud charges any further. Whatever the exact truth of the situation, the case sheds some light on the efforts of state security services to combat communism. Ibid., 6.

relatively newly formed. Many of the members of the labor movement were not wage workers employed by a company, but effectively independent contractors or artisanal workers such as taxi drivers, butchers or furniture makers, and as such did not have the same relation to their union or to the larger economy as, for example, employees of the tobacco factories. Coupled with the limitations of communist organizing strategy, it is plausible to imagine that many of the workers organized in unions were not imbued with a particularly strong union consciousness, let alone a firm allegiance to more radical forms of unionism which the Communist Party, in theory at least, espoused. As such, it was probably not especially difficult to peel off a substantial layer of the workers, especially the self-employed, that had previously been organized in communist-controlled unions, hitherto, the only labor organizations available to join for many workers, and induce them to join new, anti-communist organizations. It was certainly the case that the new unions were able, in a relatively short space of time, to eclipse the communists in a number of sectors and by the 1950s workers organized in the FLU were in a minority.

These new organizations were not officially state-controlled, but were instead under the patronage of wealthy individuals, who were also cabinet ministers and among the richest and most powerful people in the country. As such their existence should be viewed as part of the array of indirect, semi-official measures employed by the ruling class to overcome the limitations of a weak, underfunded and resource-poor state mechanism, and contain radical threats to its hegemony. The two new labor federations, the Labor League and Labor Front, became linked with the Parti Populaire Syrien (PPS, also know as the Syrian Social Nationalist Party or SSNP) and the Lebanese Kata'ib Party respectively, both rightwing political groups who were bitter enemies of the communists and could aid the new labor unions in organizing against the Communist Party and the unions it controlled. The use of rightwing political groups, which in the case of the LKP also had relatively well-trained and disciplined armed wing, was a tactic employed by the ruling elite on a number of crucial occasions and effectively represented a form of privatization of the state's repressive apparatus.[65]

The creation of new labor organizations to combat communist influence and deprive the Communist Party of a key base of support was one part of the overall strategy employed by a ruling elite wary of the apparently extensive popular support enjoyed by the party. Even though the CP had abandoned any open calls for revolutionary social change, and had adopted an agenda that was politically moderate, its anti-imperialist, 'national development' platform that called for investment in industry and agriculture, better wages

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[65] During the civil war of 1958 for example, both the PPS and the LKP aided the loyalist forces and defended the regime of Kamil Sham'un against its opponents. This was a slightly more complex case as elements of the ruling class broke with the Sham'un regime to join different opposition or 'third force' groupings, but it nevertheless demonstrates how rightwing militias were utilized by those who wished to uphold the status quo in the face of reformist threats. See also, Frank Stoakes, "The Supervigilantes: The Lebanese Kataeb Party as a Builder, Surrogate and Defender of the State," *Middle Eastern Studies* 11, no. 3 (1975): 215–36.

and a semblance of a welfare state, were anathema to a bourgeoisie dominated by mercantile and financial interests and a threat to their pursuit of a deregulated, laissez-faire economic order. Thus the party's bases of support among the working class were challenged with new, anti-communist labor organizations, and General Security acted to recruit informants and subvert communist organizing through bribery and intimidation, whilst the established mechanisms of electoral politics worked to deprive the Communist Party of any foothold in mainstream political institutions. Theses measures, which were followed by the reorganization of General Security in 1948, under the new leadership of the staunch anti-communist Emir Farid Chehab, as well as the establishment of a Ministry of Labor and Social Affairs, which developed a strategy of keeping the labor movement divided by licensing multiple labor federations (though never those that were openly communist), all helped to keep a stranglehold on communist political activism and prevent the Communist Party from transforming into a contender for state power. With the outbreak of hostilities in Palestine, and the CP's turn to support the Soviet position, the Lebanese elite expanded its anticommunist campaign to include direct repression.

At the same time, it is important to recognize that these measures were given much greater efficacy, and perhaps would not have met with success, if it were not for the inherent organizational and ideological weaknesses of the communists themselves. The kinds of shortcomings discussed above, the methods of recruitment and the loose organizational structure that limited the permeation of communist ideas and political consciousness evenly throughout the movement, left the party susceptible to subversion and the rapid desertion of large parts of its membership and support base when powerful countervailing pressures and inducements were brought to bear. Workers in communist-dominated unions could be pressured or otherwise 'encouraged' with relative ease to switch their allegiance to other, elite-sponsored organizations, because in many cases their engagement with communism on the level of ideas was likely very limited and their initial participation in the union movement had been probably driven more by immediate material considerations, personal loyalties or the apparent lack of alternative organizing options. The same pattern was likely true in other popular sectors, and it was only among the relatively small layer of radical intellectuals, and a minority of workers, that the party appeared to have any deep and lasting hold. The Communist Party itself certainly seemed to be aware of the extent to which its more committed membership was based among students and intellectuals, rather than workers or peasants.[66] This problem was compounded by the strategy of adopting an increasingly moderate political line, so as to win support among the 'nationalist bourgeoisie' and to position the party within the mainstream nationalist movement (or at least so as not to be seen as being in opposition to the nationalists). This meant that the party's slogans and statements, often designed to appease landowners and big business had relatively little to offer workers and the poor,

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[66] See Ismael, *The Communist Movement in Syria and Lebanon*, 41.

beyond broad claims of support for improvements in the standard of living and assistance to the poor that were often indistinguishable from those made by bourgeois politicians.

In short, a political force which had the potential at least to alter the status quo, and ameliorate some of the worst features of postcolonial Lebanon's political economy, had a base of support which was relatively broad by 1947-8, but also shallow, and a sudden political crisis could quickly threaten it. The efforts of the ruling class to challenge the hegemony of the communists in the labor movement, to subvert their organizing with informants and spies, and to defraud them at the ballot box, thus denying them a place on the national stage from which to proselytize more effectively, all helped to begin turning the tide against the Communist Party. But, the decision by Khalid Bakdash and his ruling clique to doggedly follow the Soviet line on Palestine in the face of strong internal opposition, and move from opposing to supporting the United Nations Partition Plan, provided the political shock that shattered the link between the relatively small group of party faithful and its broader bases of support among the Lebanese population. From several thousands in 1947, the party's membership rapidly dwindled to a few hundred in 1948 as the Palestine catastrophe unfolded, and the party became, albeit temporarily, a pariah. The communists were able to recover somewhat within a few years, and returned to open public activity, but they never again enjoyed the breadth of support and the lack of challengers on the left that they did in the early years of Lebanese independence. This episode also serves to highlight some of the methods employed by the ruling class to combat its reformist opponents and remove potential threats to the emerging postcolonial status quo, at least some of which would be employed again, in the face of new challenges to come.

The Lebanese Labor Movement

The fortunes of the Lebanese labor movement were another example of how the Lebanese ruling class handled potential centers of dissent and challenges to their economic and political hegemony. From its beginnings at the turn of the twentieth century, the movement developed significantly during the 1920s and 1930s, under the French colonial regime, and then grew further under the special conditions of World War Two, when a limited form of economic autarky prevailed. After the war a determined contest between the ruling class and the radical left helped to shape the contours of the labor movement in postcolonial Lebanon. Once again, the ruling class' unwillingness to allow radical reformist tendencies to gain any significant foothold in the institutions of the state, including semi-autonomous bodies such as the official labor movement, led to the search for other outlets for mounting labor discontent.

Early History of the Labor Movement

Much of the early history of working class organizing and activity in Lebanon was centered on the railway workers of the Biqa' Valley. As early as 1908, the workers employed by the French-owned Damascus-Hama railway company (DHP), established a workers' association with a major branch in the town of Riyaq near Zahle. In 1912 the first railway workers' union was established in the town, the same year in which a Print Workers' Union was established in Beirut.[67] One of the first recorded strikes in modern Lebanese history occurred in 1920 when the railway workers' struck demanding recognition of their union, an end to unfair dismissal and an increase in pay. The strike was largely successful, and the company initially acceded to the workers' demands, but the latter were forced to strike again the following year when the company failed to deliver on its promises.[68] The value of the strike weapon as an effective way to fight exploitation and ameliorate living conditions was not lost on the Lebanese working class and as the twenties progressed, and the economic situation deteriorated, the number of recorded strikes rose sharply.

The return to the country in 1923 of labor organizer Fuad Shemali, whose role in founding the Communist Party was described above, marked the beginning of a new phase in working class activism and radicalism. He began working in the tobacco industry in Bikfaya, home to an expanding workforce of around 2,000 tobacco workers, and continued his organizing efforts which led, in August 1924, to the establishment of the General Syndicate of Tobacco Workers.[69] The Syndicate in turn became a central part of the Supreme Committee of Syndicates, founded in November 1925, which also included delegates from the unions of print workers, cooks, carpenters, shoemakers and drivers.[70]

In the late 1920s the economic situation worsened dramatically, pushing the working class into greater levels of activity. Between 1926 and 1929 there were forty-seven recorded strikes in the major cities of Lebanon and Syria. The most militant workers were in the public sector, transportation, the electricity company, and the tobacco industry; workers employed in the textile and shoe-making industries tended to follow the lead of these workers.[71] Significantly female workers became increasingly active in strike actions. In 1930, several hundred women employed in the tobacco factories marched to downtown Beirut and picketed government offices.[72] Such actions were particularly courageous as

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[67] Aziz Saliba, *Tarikh al-Harakah al-Niqabiyah fi al-Biqa'* (Beirut: Dar al-Farabi, 1999), 17–18. The neologism 'union' (*niqaba*) is not thought to have been in use in Lebanon until around the mid-1920s; the term 'association' (*jama'iyya*) was generally used instead.
[68] Ibid., 18; Buwari, *Tarikh Al-Harakah Al-'Ummaliyah Wa Al-Niqabiyah Fī Lubnan, Vol. 1*, 109.
[69] Buwari, *Tarikh Al-Harakah Al-'Ummaliyah Wa Al-Niqabiyah Fī Lubnan, Vol. 1*, 109–110.
[70] Ibid., 110.
[71] Thompson, *Colonial Citizens*, 101.
[72] Ibid., 101–102.

female workers suffered not only the same economic exploitation as their fellow male workers, but also were also the target of significant amounts of abuse because of the stigma attached to women working in factories. As Toufic Gaspard argues, historically "institutional and moral considerations of bad reputation prevented the drawing into waged employment of more women", and women who engaged in factory work and other forms of wage-labour were sometimes viewed as synonymous with prostitutes, particularly by the religious right.[73]

Following the onset of the Great Depression, Lebanon like much of the rest of the world was plunged into a protracted economic crisis. Unemployment soared, officially to around 30% though almost certainly much higher, whilst wages fell and hundreds of thousands were left destitute, struggling to survive.[74] At the same time the French had greatly increased the tax burden on the Lebanese population, from a total of 330,000 lira in 1914, to 10 million under the mandate, with most of that being used to fund the occupation rather than provide much needed social services.[75] At the same time the French concessionary companies which controlled the major sectors of the economy were attempting to offset losses caused by the world recession by increasing transport and electricity charges and cutting wages, all the while passing on profits (with 5-6% interest) to their French stockholders.[76] This was an explosive set of circumstances which rapidly led to rising levels of popular protest and struggle throughout Lebanon and Syria. In 1930, 50,000 workers and their families marched to the office of the High Commissioner in Aleppo demanding higher wages. Strikes and boycotts of public transit escalated in the following years to which the French initially responded by suspending the constitution and imposing rule by decree.[77] By 1933 however, the situation had become untenable and the labor movement forced the French to increase investment and instigate a LLS 10 million public works program to create jobs and combat chronic unemployment. Further strike waves forced the French to order wage increases, against the wishes of the Lebanese bourgeoisie.[78]

The growth in trade union membership and radicalism continued during the 1930s and into World War Two as the special conditions of wartime created opportunities for further expansion of labor and leftist activity.[79] This period set the stage for the struggles and transformations of the postcolonial period.

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[73] Gaspard, *A Political Economy of Lebanon, 1948-2002*, 49.
[74] Traboulsi, *A History of Modern Lebanon*, 96–7.
[75] Ibid., 97.
[76] Ibid.
[77] Thompson, *Colonial Citizens*, 156.
[78] Ibid., 157.
[79] See the first part of this chapter.

Lebanese Labor After Independence

As discussed in the previous section on the Lebanese Communist Party, the post-World War Two Lebanese labor movement was dominated by the communist-backed Federation of Lebanese Unions (FLU), which was the only national labor federation in Lebanon at that time. It comprised many of the major unions in the country, including the unions of printers, carpenters, butchers and some taxicab drivers. However, a number of the oldest, best-organized and most militant unions did not join the communist-backed federation, including the union of tobacco monopoly workers, railway workers and employees of the electricity and port companies. Unlike many of the unions in the FLU, which were predominantly 'craft unions', these independent unions were generally organized along industrial lines, which tended to make them more militant and more effective organizations when it came to bargaining with particular employers for improved wages and benefits.[80] They also had more regularized dues collection structures and could thus operate on a more financially self-sufficient basis. These independent unions were unwilling to join the communist-backed unions, claiming a desire to remain politically neutral, and instead lobbied the government for a license to form a new independent federation, initially without success. Instead, the first rival to the FLU was the Labor League, which was the first legally recognized labor federation in the country, the FLU having been consistently refused a license to organize, and which was funded and supported by major figures in the political and business elite.[81] Taking advantage of the fact that many communist activists were in prison or in hiding as a result of the government crackdown prompted by the Palestine War in 1948, these elite political figures sensed an opportunity to peel away the more conservative elements of the FLU, and thus the Labor League was granted a license that same year.[82]

The Labor League was strongly supported by the United States and its diplomatic personnel in Lebanon, who saw in it an opportunity to build a labor bulwark against communism. The League was encouraged to join the new Western-backed International Confederation of Free Trade Unions (ICFTU), created in the late-1940s to rival the Soviet-

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[80] Craft unions group together the members of a particular trade or 'craft' (such as carpenters, butchers etc.) and hence tend to function more as professional associations for skilled workers and artisans. Historically they have often been more conservative in their outlook and in their attitudes towards organizing less skilled workers (the American Federation of Labor being one example). Industrial unions, as the name implies, organize the workers of a particular industry (such as tobacco factory workers), regardless of skill level, and have historically, in more industrialized countries at least, been more militant. However, this schema (conservative craft unions vs. militant industrial unions) tends to fit better in contexts where industrial development has led to the increasing concentration of significant numbers of workers in large enterprises (thus making organizing only select sub-groups of skilled workers less effective for challenging the power of business owners). In the Lebanese case, like many colonial and semi-colonial countries, industrial development often did not proceed along these lines in the same way and to the same extent, making the advent of industrial unionism a slower and more piecemeal process.

[81] U.S. Legation Beirut to Dept. of State, "The Anti-Communist Labor Movement in Lebanon," 1.

[82] Ilyas Buwari, *Tarikh Al-Harakah Al-'Ummaliyah Wa Al-Niqabiyah Fī Lubnan, Vol. 2* (Bayrūt: Dār al-Fārābī, 1980), 67–76.

supported World Federation of Trade Unions (WFTU), which it did, becoming the only Lebanese labor federation to do so until the 1960s. From the beginning, however, the Labor League was plagued with problems, and it had great difficulty positioning itself as a serious rival to other forces in the labor movement. The League made little effort to disguise it's connections to the government and to key political figures in the regime of Beshara al-Khoury (Khalil al-Khoury, the president's son, was the honorary president of the League), and as such its claims to be a true representative of organized labor were somewhat undermined. This reality was compounded by the fact that the League was almost wholly dependent on cash subsidies from the government, and from wealthy political benefactors, as its member unions were organizationally weak and few were able to collect dues from their memberships.[83] Furthermore, the leadership of the League was comprised of individuals who had reputations for being some of the most venal and corrupt labor figures in the country. These factors weakened their credibility and legitimacy as leaders, and left the League open to relatively easy penetration by rival political forces, particularly the communists and radical Arab nationalist elements.[84]

The fortunes of the League took a downward turn following the popular revolt of September 1952 which ended Khoury's presidency and ushered in the regime of Kamil Sham'un. The League had been seen as a tool of the Khoury regime and as such was somewhat out of favor with the new Sham'un government.[85] The League's problems were exemplified by the emergence in the years immediately following Khoury's downfall of new labor federations which proved to be better organized and more effective labor institutions. The first of these new federations was the United Unions, comprised of the collection of better-organized, older unions referred to earlier, who were finally granted a license to federate in November 1952.[86] These unions, which represented predominantly white-collar workers had, unlike most other Lebanese trade unions, relatively effective dues collection mechanisms and established a number of welfare projects for members,

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[83] U.S. Embassy Beirut to Dept. of State, "Annual Labor Report - Lebanon, 1952" February 18, 1953, 883a.06, Box 5443, Central Decimal Files 1950-54, General Records of the Department of State (Record Group 59), National Archives at College Park, MD, p3-4.

[84] See, for example, U.S. Legation Beirut to Dept. of State, "Disorganization of Lebanese Labor League Aids Communist Interests" January 10, 1952, 883a.062, Box 5443, Central Decimal Files 1950-54, General Records of the Department of State (Record Group 59), National Archives at College Park, MD; U.S. Embassy Beirut to Dept. of State, "Communists, Najjadists Challenge Hussein's Control of Bakers' Union" February 25, 1958, 883a.062, Box 4925, Central Decimal Files 1955-59, General Records of the Department of State (Record Group 59), National Archives at College Park, MD; U.S. Embassy Beirut to Dept. of State, "Jam'iat Election Conducted under Strong Najjada Pressure" February 10, 1959, 883a.062, Box 4925, Central Decimal Files 1955-59, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.

[85] U.S. Embassy Beirut to Dept. of State, "Annual Labor Report - Lebanon, 1952", p9; U.S. Embassy Beirut to Dept. of State, "Annual Labor Report - Lebanon, 1955" June 30, 1956, 883a.06, Box 4925, Central Decimal Files 1955-59, General Records of the Department of State (Record Group 59), National Archives at College Park, MD, p5; U.S. Embassy Beirut to Dept. of State, "Analysis of the Labor Movement in Lebanon" July 24, 1953, 883a.06, Box 5443, Central Decimal Files 1950-54, General Records of the Department of State (Record Group 59), National Archives at College Park, MD, p1.

[86] U.S. Embassy Beirut to Dept. of State, "Annual Labor Report - Lebanon, 1952," 4.

including a night school for teaching literacy. Four of the members of the United Unions had joined the Labor League in late 1950, in the context of the ongoing refusal of the Ministry of Social Affairs to grant them a license to federate, and their presence in the League had helped to reinvigorate the latter, albeit temporarily.[87] However, dissatisfaction with the operation of the League, particularly with the autocratic nature of its political procedures and the exclusion of many member unions from any positions of influence within the federation, led these unions, along with a number of others, to split with the League in the first quarter of 1952. The four unions, the Railway Workers', Bank Employees', Port Workers' and Tobacco Monopoly Company Workers' Unions, were joined by a fifth union, the Electricity Company Workers' Union, in forming the new United Unions. In its first officer elections in 1953, relatively well organized and competitive, the leader of the Banque de Syrie et du Liban (BSL) Employees' Union, Gabriel Khoury, a charismatic and well-respected figure, was elected president of the federation.[88]

A second breakaway faction from the Labor League was granted a license to federate in 1954.[89] This new grouping, the Allied Independent Unions (AIU), was led by Machinists' Union president 'Abd al-Majid Mehio, who at one time had been president of the Labor League. However, in an effort to tighten his grip on the League, Khalil al-Khoury, the son of the then-president of Lebanon, had engineered Mehio's defeat along with that of several other members of the League's governing board, and their replacement with more 'dependable' individuals in mid-1952.[90] At the time of his defeat as League president, Mehio had not been rated particularly highly by the labor section of the US Legation, and Labor Attaché Paul Lunt claimed that Mehio's fall from power was "not regarded as of any particular significance", a statement which, given Mehio's defection to lead the AIU, and his subsequent prominence in the Lebanese labor movement, proved to be somewhat premature.[91] The AIU was initially comprised of a grouping of seven predominantly blue-

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[87] U.S. Legation Beirut to Dept. of State, "Labor Developments - Lebanese Labor League" March 20, 1951, 883a.06, Box 5443, Central Decimal Files 1950-54, General Records of the Department of State (Record Group 59), National Archives at College Park, MD, p1.

[88] U.S. Embassy Beirut to Dept. of State, "United Unions Elections" July 9, 1953, 883a.062, Box 5443, Central Decimal Files 1950-54, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.

[89] U.S. Embassy Beirut to Dept. of State, "Former Members of ICFTU Affiliate Jami'at Granted License to Form New Federation" June 22, 1954, 883a.06, Box 5443, Central Decimal Files 1950-54, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.

[90] U.S. Embassy Beirut to Dept. of State, "President of Labor League Defeated in Annual Elections" June 16, 1952, 883a.062, Box 5443, Central Decimal Files 1950-54, General Records of the Department of State (Record Group 59), National Archives at College Park, MD. Aside from Mehio, the other defeated incumbents were officers of the larger and more active unions in the League, particularly the Railway Workers' Union and Tobacco Monopoly Company Workers' Union, both of which subsequently split to form the United Unions. The new board was predominantly staffed by officers of the League's smaller, weaker unions, a fact which no doubt aided Khoury's efforts to control them.

[91] Ibid., 2. Labor reporting from the US diplomatic post in Beirut varied in quality, depth and insight from one labor attaché to the next. This was exacerbated in the first years after World War Two by the fact that the labor section was stretched thin and labor reporting officers were appointed at a regional level and expected to cover several countries at once, inevitably limiting their capacity to develop substantive relationships in any one locale. See, for example, U.S. Legation Beirut to Dept. of State, "Our Approach to Lebanese Labor" December 21, 1951, 883a.06, Box 5443, Central

collar unions with a claimed total membership of around 4,000, and was dominated by Mehio's Machinists' Union, but within a short space of time three of these unions would split and rejoin the Labor League, citing 'administrative disagreements' with the AIU leadership. The dissidents claimed that Mehio was running the AIU in a dictatorial manner and had populated the top posts in the federation with officers loyal to him, and following negotiations with the League, and promises of positions on the League's governing body, they split from the AIU to rejoin it.[92] Mehio continued to experience difficulties maintaining his leadership of the AIU throughout the 1950s, and at the end of the decade he narrowly avoided defeat at the hands of an opposition slate in the annual officer elections, and was saved in part through his alliance with a fellow defector from the Labor League, Mohammad al-Sharqawi, president of the Stevedores and Seamans' Union, whose union enjoyed a somewhat less than savory reputation.[93] Unfortunately for Mehio his victory was short-lived, and in 1961 he was forced out of the renamed Federation of Independent Trade Unions (FITU) and the labor movement altogether.[94]

In short, the period following independence until the outbreak of the first Lebanese civil war of 1958 was marked, in the labor movement, by fragmentation and increasing subservience of organized labor to the state and to bourgeois political leaders. In general, Lebanese unions remained relatively weak, disorganized, centralized, undemocratic and reliant on external aid for their ongoing survival. From the point of view of the Lebanese bourgeoisie and their US benefactors, this state of affairs helped ensure that left-wing, reformist forces, or indeed any force that potentially posed a threat to the status quo, were kept at bay and marginalized within the world of the organized working class in Lebanon. By 1958 the majority of Lebanese unions were grouped in one of four legal labor federations, with the unlicensed and illegal Federation of Lebanese Unions, backed by the Lebanese Communist Party, an increasingly marginal presence. This was a marked change from the situation that pertained in the mid-1940s, when only the FLU existed and a large percentage of organized workers were linked to it. The Lebanese bourgeoisie had thus succeeded in breaking labor unity and replacing the communist party as the hegemonic force in the labor movement. The new crop of labor leaders who emerged in the late-1940s and into the 1950s were sometimes competent and charismatic enough to advance the

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Decimal Files 1950-54, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.

92 U.S. Embassy Beirut to Dept. of State, "ICFTU Affiliate Jami'at Strengthened by Return of Three Unions" February 10, 1955, 883a.06, Box 4925, Central Decimal Files 1955-59, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.

93 U.S. Embassy Beirut to Dept. of State, "Election Results of the Allied Independent Unions" May 19, 1959, 883a.062, Box 4925, Central Decimal Files 1955-59, General Records of the Department of State (Record Group 59), National Archives at College Park, MD. Sharqawi, who died suddenly of a heart attack in 1961 at the age of 53, was a labor contractor who provided casually-employed stevedores for the Port of Beirut and was one of the original organizers of the Stevedores and Seamans' Union.

94 U.S. Embassy Beirut to Dept. of State, "Annual Labor Report - 1960" May 25, 1961, 883a.06, Box 2795A, Central Decimal Files 1960-63, General Records of the Department of State (Record Group 59), National Archives at College Park, MD, p7.

cause of labor in some limited ways. Abd al-Majid Mehio, for example, helped institute collective bargaining practices amongst gas station attendants, represented by his Machinists Union, and gas station owners, though no legally-binding agreements resulted from them. In general, however, the subservience of these leaders to bourgeois politicians ensured that although the number of union member continued to rise, the unions they joined, with important exceptions, largely remained weak and ineffectual.[95] This situation began to change, however, in the aftermath of the civil war of 1958.

Labor & the Civil War of 1958

In May of 1958 the Lebanese political order temporarily collapsed and a six-month period of popular revolt began, leading to the eventual intervention of the US military.[96] The immediate spark for the conflict was the assassination of the editor of an opposition newspaper, the *Telegraph*, on May 7th 1958. The journalist, Nasib al-Matni had been an outspoken critic of President Kamil Sham'un's policies and his death prompted mass protests which rapidly escalated into all-out civil conflict.[97] The stage for this drama had been set by the decision of Sham'un to seek second term in office, a move which the Lebanese constitution prohibited, and which therefore required a two-thirds majority in the Lebanese parliament in order to approve a constitutional amendment. Following the parliamentary elections of the previous year, in which substantial injections of cash from the CIA had ensured a result highly favorable to the Sham'un regime, a two-thirds majority for a constitutional amendment was a distinct possibility, but a mounting extra-parliamentary opposition movement to Sham'un had emerged, significantly raising the costs of any attempt by him to extend his time in office.[98] This opposition movement was fueled by two major factors, one internal, the other external, which provided the deeper context for the explosion of 1958.

The internal factor was the increasing consolidation of power by Sham'un, beyond what had hitherto been accepted as the norm for the Lebanese executive branch. Sham'un had instituted, for example, a practice of selecting weak prime ministers, thus ensuring their

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[95] The white-collar oil industry employees' unions, for instance, representing the administrative and technical employees of foreign oil companies operating in Lebanon, were generally better organized and more effective in advocating for their members' interests than most Lebanese unions. Similarly, the Tobacco Monopoly Company (the Regie) Workers' Union had a strong history of militancy. These remained relatively exceptional cases however.

[96] See Irene Gendzier's rich and informative account of the crisis and the buildup to it in, Gendzier, *Notes from the Minefield*, chap. 11–14. See also, Caroline Camille Attié, *Struggle in the Levant : Lebanon in the 1950s* (London; New York, NY: I.B. Tauris & Centre for Lebanese Studies, 2004), chap. 6–8.

[97] Traboulsi, *A History of Modern Lebanon*, 134.

[98] Rockwell to Waggoner, "Forthcoming Presidential Election in the Lebanon" January 17, 1958, 783a.00, Box 3750, Central Decimal Files 1955-59, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.

subservience to him, and allowing him to dominate the business of government.[99] He also began to deal directly with the directors-general of the major government ministries, bypassing the relevant cabinet ministers and further centralizing power in his own hands. Perhaps most significantly though, he substantially weakened the legislative branch by drastically reducing the number of seats in parliament from 77 to 44 in an electoral law passed at the start of his term in office.[100] This would prove to have serious consequences as it excluded many elite figures from parliament and from the official channels of state power, and thus began to engender serious bourgeois opposition to the Sham'un regime. This weakening of the legislature reached its apogee with the elections of 1957, when, despite an increase in the number of seats to 66, CIA funds helped Sham'un reduce even further the presence of oppositional figures from parliament, and the election results left several veteran politicians such as Kamil Jumblatt, Abd al-Allah al-Yafi, and Saeb Salam outside of parliament. This would prove to be a fatal mistake for Sham'un, as an extra-parliamentary opposition began to rapidly take shape by the end of 1957.[101]

Beyond the domestic sphere, opposition to Sham'un was fueled by his rejection of the foreign policy neutralism he pledged to support as a leader of the opposition to his predecessor, Beshara al-Khoury. During his term as president, Lebanon became increasingly open in its alliance with the Western powers and Sham'un was vocal in his support for US strategic aims in the Middle East and in his opposition to the rising current of Arab nationalism. Although he was unable to formally join the clearest expressions of US imperial interest in the region, most notably the ill-fated Baghdad Pact, Sham'un did signal, in the year before his eventual downfall, Lebanon's adherence to the Eisenhower Doctrine in an exchange of letters with his US counterpart.[102] Within Lebanon Sham'un's brazen attempts to orient Lebanon in an openly pro-Western manner created increasingly widespread opposition which emanated from two main sources.

Firstly, primarily at the popular level, there was genuine and increasingly extensive support for the emerging Arab nationalist movement and its most charismatic proponent, Gamal 'Abd al-Nasser of Egypt. After being spurned by Washington, Nasser had become a

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[99] Traboulsi, *A History of Modern Lebanon*, 129.
[100] Ibid.
[101] Cumming to Secretary of State, "Intelligence Note: The Nature of Anti-Sham'un Disturbances in Lebanon" April 11, 1958, 783a.00, Box 3750, Central Decimal Files 1955-59, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.
[102] Traboulsi, *A History of Modern Lebanon*, 134.The Baghdad Pact, formally known as the Middle East Treaty Organization (METO), was an Anglo-American effort, ostensibly modeled on NATO, to unite the most pro-Western regimes in the Middle East and South Asia in a common defense arrangement that would act to contain the Soviets along the USSR's southern border. The announcement of the Pact in 1955 was met with vociferous opposition from Arab nationalist forces across the region and the only Arab country to join was Iraq. This was short-lived, however, and following the revolution of 1958 the new Iraqi regime renounced the agreement, leaving the soon-to-be renamed Central Treaty Organization (CENTO) with just Turkey, Iran and Pakistan as members. Following the Iranian Revolution of 1979, and the subsequent withdrawal of Iran from CENTO, the organization was dissolved.

key figure in the nascent Non-Aligned Movement and had sought aid from the Soviet Union, further raising the ire of both the United States and the UK. In line with this emerging orientation, Nasser's regime became increasingly vocal against Western imperialist ambitions in the region, and Lebanon under Sham'un was a key target of Nasserist political rhetoric. This emboldened Sham'un's domestic Arab nationalist critics who stepped up their campaign against his regime, with material and moral aid from both Egypt and Syria.[103] The other source of domestic opposition to Sham'un's foreign policy was centered at the bourgeois level and was comprised of those members of the elite who were cognizant of the risks that would flow from any measure that separated Lebanon politically from the rest of the Arab world. These neutralists, who invariably had little sympathy for Arab nationalism, feared Sham'un would threaten the viability of the Lebanese polity by enraging much larger and more powerful states, especially Syria, that could easily overwhelm Lebanon militarily or by means of economic sanctions, especially given the Lebanese economy's reliance on transit trade with the rest of the Arab world.

Sham'un's foreign and domestic policies had thus brought Lebanon to crisis point by the spring of 1958, and the assassination of Nasib al-Matni proved to be the event which pushed the Lebanese polity into all out civil conflict, as government authority collapsed in areas across the country and armed rebels clashed with pro-government forces, in Beirut and Tripoli in particular. The response of the labor movement to these events was to issue a press statement on May 19th, shortly after the crisis began, urging workers to avoid political protests and actions and to return to work (in contravention of the general strike called by the opposition), followed up by another on June 2nd calling for an end to the violence.[104] In general the leaders of the major labor federations were tied to the Sham'un regime or to pro-government forces in general, through ties of patronage and mechanisms like the annual state subsidies which kept many labor unions afloat from year to year. This fact was not lost on the opposition who targeted a number of labor leaders who now lived in areas controlled by the rebels. Death sentences were passed against six labor leaders by the rebels, whilst George Sacre (President of the Petroleum Workers Federation) was kidnapped and Hussein Ali Hussein (Vice President of the Labor League) was forced to flee

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[103] The exact extent of such aid is difficult to gauge with any precision as much of it was covert in the form of, for example, secret payments to Lebanese journalists and activists. When open civil conflict erupted in 1958, Sham'un alleged that such succor had developed into direct military intervention, and that Syrian and Egyptian forces were in Lebanon directly aiding the rebels, a claim which the UN could find no evidence to support. This did not prevent Sham'un from invoking the Eisenhower Doctrine and requesting US military intervention to save his regime. See Gendzier, *Notes from the Minefield*, 264–272.

[104] U.S. Embassy Beirut to Dept. of State, "Attitude of Various Factions of the Lebanese Labor Movement During Current Lebanese Crisis" June 10, 1958, 883a.062, Box 4925, Central Decimal Files 1955-59, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.

his home in Beirut.[105] This contrasted with the leftist and communist labor activists who openly sided with the opposition forces against the regime.[106]

After US forces arrived to rescue the Lebanese regime and contain the rebellion (as part of 'Operation Blue Bat'), a deal was reached to replace Sham'un with the head of the army General Fuad Chehab and the opposition leadership was placated. However the peace was short-lived as efforts to agree on the formation of a new government reached a stalemate ushering in a renewed period of violence, termed the 'counter-rebellion', as rightwing forces sought to limit the inclusion of political figures who had lead the opposition in the new administration. In September the rightwing Lebanese Kata'ib Party organized a general strike in predominantly Christian areas in the eastern part of Beirut and in Mount Lebanon, and kidnappings and violence ensued. It was ultimately the labor bureaucracy, or a section of it, that helped to finally bring an end to the civil conflict of 1958. On October 14th the United Unions, under the leadership of Gabriel Khoury, which represented mainly white-collar workers in key commercial sectors and in public utilities, threatened a general strike unless a new government was formed immediately. The threat of further major disruption and economic paralysis proved to be the impetus that prompted the formation of a four-person cabinet split between Sham'un loyalists and the rebel leadership.[107] The US Embassy considered the strike threat to have been motivated by the deaths of union members in the renewed hostilities, but the pro-Sham'un leanings of the UU leadership, and the fact that the ultimate settlement helped to limit the political losses of loyalists forces, suggests that it may have been part of a deliberate political strategy.[108] The strike threat certainly served to enhance the prestige of the United Unions and to strengthen the position of Gabriel Khoury within the Lebanese labor movement.

The Post-'58 Labor Landscape

In the years following the conflict of 1958, the labor movement became a site of political struggle once again, as leftist and Arab nationalist forces renewed their efforts to gain a greater foothold within Lebanese unions and to challenge the power of the conservative trade union bureaucracy. There are a number of likely factors which contributed to this upsurge in political struggle. One such factor flowed from developing regional political

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[105] U.S. Embassy Beirut to Dept. of State, "Annual Labor Report - 1958" April 20, 1959, 883a.06, Box 4925, Central Decimal Files 1955-59, General Records of the Department of State (Record Group 59), National Archives at College Park, MD, p8.
[106] Ibid., 8.
[107] Ibid., 5–6.
[108] Ibid., 5–6; U.S. Embassy Beirut to Dept. of State, telegram (October 14, 1958), 883a.062, Box 4925, Central Decimal Files 1955-59, General Records of the Department of State (Record Group 59), National Archives at College Park, MD. The fact that UU president Gabriel Khoury was connected to the rightwing 'National Bloc', headed by Raymond Edde who became one of the members of the new four-person cabinet, lends weight to this thesis.

dynamics as a consequence of which leftwing forces appeared to be on the ascendancy, and Arab nationalism entering its heyday. The union between Syria and Egypt in 1958 (to form the United Arab Republic) enhanced Nasser's status as one of the most powerful political figures in the region, whilst the coup in Iraq that deposed the British-backed Hashemite monarchy had brought to power another nationalist regime, this time one with strong, if uneasy, ties to the local Communist Party. With conservative monarchies such as Jordan and Saudi Arabia feeling the influence of militant nationalist forces, the political tide seemed to be turning increasingly in favor of leftist and anti-imperialist political tendencies. The presence of the new United Arab Republic on the borders of Lebanon, along with the rapprochement between the new Lebanese president, Fuad Chehab, and Nasser, meant that Lebanon could only continue to be swept up in these shifting political tides. Following the improvement in Lebanese-UAR relations, the UAR diplomatic mission in Lebanon became a focal point for the dissemination of Nasserist propaganda and political influence, whilst UAR intelligence agents and sympathizers inside Lebanon gave political and material support to nationalist activists working in the labor movement.

Other factors which were likely of importance in generating the upsurge in political struggle in the trade unions flowed from the changes in the domestic landscape and the impact of the civil conflict of 1958. The emerging elite discourse of 'Chehabism', which was ostensibly a turn towards a Lebanese form of statism, but was perhaps more accurately an attempt to repackage the original Lebanese model in the aftermath of the violent challenge to the status quo of 1958, foregrounded notions of inclusivity and national unity in contrast to the more or less open embrace of a rapacious laissez-faire order during previous post-independence regimes.[109] This shift in official discourse created political spaces, albeit still highly circumscribed, for leftists and Arab nationalists to operate in ways which were more difficult during the Sham'un era, when the regime's virulent anti-communist rhetoric and open hostility to Nasserism and Arab nationalism allowed no mainstream space for the political left.[110] On top of this, the events of 1958, and particular the strike threat by the United Unions that helped end the conflict, illustrated the extent to which the labor movement could be a prominent political actor, as well as making it clear how tied the

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[109] The idea that Chehabism represented a fundamental shift in the nature of Lebanese capitalism is difficult to sustain in the face of he economic realities that underlay the Chehab's presidency, as well as that of his successor Charles Helou. In the years immediately following the 1958 civil war, for example, bank deposits soared to record levels as capital inflows from the Gulf states and flight capital from the UAR and Iraq, the bedrock of Lebanon's economy, grew exponentially. The distorted, finance capital driven nature of the economy remained unchanged and less than a decade after Chehab's ascendancy to the presidency would begin to unravel following a crippling banking crisis. See Chapters One & Three.

[110] One indication of this was the inclusion of Kamal Jumblatt in a number of governments after 1958, frequently in the position of Minister of the Interior. This was a notable shift from the Sham'un era when Jumblatt had been excluded from positions within the government, particularly after Western oil interests had expressed concerns about his politics, notably his interest in nationalizing the oil sector. Whilst Jumblatt was a somewhat mercurial figure, whose allegiances changed over time, he was nevertheless connected to a party, the PSP, which played an important role within the broader constellation of the Lebanese left and his inclusion in various governments in the 1960s represented a distinct shift in Lebanese politics.

labor bureaucracy was to Lebanon's ruling elite and to the political right more generally. For the various forces of the political left, this undoubtedly underscored the need to challenge the incumbent leadership, if any progress was to be made in wresting control of the labor movement from the Lebanese ruling elite and their conservative agenda. The broader context of rising trade union membership, possibly to around 31,000 members by 1960 (out of a non-agricultural workforce estimated at around 150,000), underlined the potential of the labor movement to be a significant social and political force in the country, especially given its status as one of the few popular, non-sectarian institutional spaces in Lebanon.[111]

Whatever the precise combination of factors which produced renewed contestation, it was nevertheless the case that strikes, labor protests and internal political struggle between leftists and their conservative rivals rose sharply in the years after 1958. The labor section at the US embassy, for example, reported that 1960 saw the highest number of recorded strikes in modern Lebanese history as thousands of workers were involved in around two dozen major strikes during that year, with the longest being a twenty eight day stoppage by workers at Beirut International Airport, led by the communist-led Hotel and Restaurant Workers' Union.[112] There were also three-week stoppages at two major cement plants, a significant sector of Lebanese industry, as well as lengthy strikes of Beirut tram operators, and day workers at the telephone exchange, the latter of whom were technically forbidden to strike as they were classified as public workers.[113] The tram workers were part of the Beirut Electricity and Public Transport Office Workers' Union which up to that point had been a part of the United Unions federation. In the aftermath of the strike, however, the president of the union, Assad Akl, a former Communist Party member and now a member of the Progressive Socialist Party, led his members out of the UU.[114] The leftwing forces in the union, led by Akl, were highly critical of UU president Gabriel Khoury's failure to support the tram workers strike by mobilizing members from elsewhere in the federation in solidarity, and for not putting sufficient pressure on the

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[111] U.S. Embassy Beirut to Dept. of State, "Annual Labor Report - 1960," 7. Figures on trade union membership, and estimates of the total workforce size, along with social statistics in general in Lebanon, should be treated with some caution as statistical methodologies were not always robust. Among other problems, the precise definition of a member of a Lebanese trade union was not always clear in a context in which many unions did not collect regular dues or have any real infrastructure below the national level. Estimates of the workforce size depended greatly on what kinds of labor were classified as 'work', an issue certainly not unique to Lebanon. See, for instance, U.S. Legation Beirut to Dept. of State, "Annual Labor Report - Lebanon, 1950" December 15, 1950, 883a.06, Box 5443, Central Decimal Files 1950-54, General Records of the Department of State (Record Group 59), National Archives at College Park, MD, p7-9.
[112] U.S. Embassy Beirut to Dept. of State, "Annual Labor Report - 1960," 4–6.
[113] Ibid.; U.S. Embassy Beirut to Dept. of State, "Settlement of Cement Walkout Ends Threat of 'General Strike'" December 5, 1960, 883a.062, Box 2795A, Central Decimal Files 1960-63, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.
[114] The Progressive Socialist Party (PSP) was headed by Kamal Jumblatt, one of the main leaders of the Druze community and a major landholder in the Shouf region where the Druze population was predominantly based. The PSP contained a large Druze element, but membership in the party was not restricted to members of the Druze community.

government to ratify the agreement reached to end the strike.[115] This episode marked a new phase in an ongoing struggle by leftwing forces to challenge the grip of the Khoury-led conservative bureaucratic clique on the United Unions, and the events it presaged provide a useful insight into the larger struggles taking place in the Lebanese labor movement.

Following the departure of the electricity and public transport workers from the United Unions, leftist contingents in other major UU affiliates began to wage campaigns to oust their incumbent leaderships, especially in the large and militant Tobacco Monopoly Workers Union, the Railway Workers Union and the Port Employees Union.[116] These campaigns were initially without success however, and the conservative leaderships were able to maintain their grip on power for the time being. In this period, as in prior times, incumbent union leaders who were seeking to fight off challenges from radical opponents could rely on a variety of external sources of support, in particular institutions of the Lebanese state as well as from US diplomatic and intelligence agents. In the former case, the Ministry of Labor and Social Affairs was an important actor, responsible for overseeing and certifying union elections and arbitrating any disputes that arose during election campaigns. This gave the minister enormous power to shape the outcome of union contests, especially in situations where potential reformist elements were poised to seize victory, and he or she was frequently prevailed upon to withhold certification or to authorize a re-run of the elections, as was the case with the hard-fought contest for the governing council of the Federation of Independent Trade Unions (FITU) in 1962.

Another key state institution that could, and did, assist the fight of incumbent bureaucrats against leftist challengers was Military Intelligence, Maktab al-Thani, frequently referred to by its French name, the Deuxieme Bureau. After assuming the presidency, Fuad Chehab had turned this agency into the preeminent intelligence apparatus in the country and it formed the coercive bedrock of his regime, replacing the Surete Generale (General Security) as the primary mechanism for fighting communism and the political left generally.[117] The Deuxieme Bureau frequently intervened in the labor

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[115] U.S. Embassy Beirut to Dept. of State, "Weekly Economic Review No. 11 - Lebanon" March 17, 1960, 883a.00, Box 2795, Central Decimal Files 1960-63, General Records of the Department of State (Record Group 59), National Archives at College Park, MD, p4-5; U.S. Embassy Beirut to Dept. of State, "Weekly Economic Review No. 12 - Lebanon" March 24, 1960, 883a.00, Box 2795, Central Decimal Files 1960-63, General Records of the Department of State (Record Group 59), National Archives at College Park, MD, p4.

[116] U.S. Embassy Beirut to Dept. of State, "Annual Labor Report - 1960," 10.

[117]Traboulsi, *A History of Modern Lebanon*, 139.. Although the Deuxieme Bureau became the principle domestic intelligence agency under Chehab, the Surete Generale still played an important role in labor affairs. During 1959 and 1960, the Communist-backed Printing Press Workers' Union entered into negotiations with its anti-communist counterpart, the Printing and Bookbinding Workers' Union, but, according to the CIA, unity talks ultimately collapsed after the Surete paid off the latter union. See U.S. Embassy Beirut to Dept. of State, "Recent Communist Activities in Labor Field" May 4, 1961, 883a.062, Box 2795A, Central Decimal Files 1960-63, General Records of the Department of State (Record Group 59), National Archives at College Park, MD, p1. See also, U.S. Embassy Beirut to Dept. of State, "Lebanese Security and Trade Unions" May 6, 1968, POL 23 LEB, Box 2306, Subject-Numeric Files 1967-69, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.

movement and worked to limit the capacity of leftwing activists, and anyone deemed to have subversive intentions, to act unhindered amongst organized workers. As leftist activity in the unions increased in the years after 1958, the Deuxieme Bureau, under the leadership of Colonel Antoine Saad, decided to step up its anti-communist and anti-leftist activities, and in early 1962 he convened a meeting of the conservative trade union leaderships and promised the support of Military Intelligence in their campaign to resist leftist pressures, encouraging them to use any means, including violence, to resist radical activists.[118]

Alongside domestic sources of aid to conservative trade union bureaucrats was the Central Intelligence Agency, and the labor section of the US Embassy, which worked to monitor communist and nationalist activity in the labor movement, and to shore up the frequently embattled conservative incumbents. CIA involvement in Lebanese trade union affairs was confirmed in cables between the State Department in Washington and its Beirut embassy, following a meeting between the embassy's labor attaché, Harold Snell, and the Lebanese Minister of Labor and Social Affairs, Joseph Skaff in October 1960.[119] The latter requested access to covert US funds to help combat radicals in the Lebanese labor movement, funds which Snell claimed to know nothing about, though he noted the minister "appeared completed [sic] sophisticated about this type of operation", implying that such a fund may well have existed, though it was unclear where exactly the funds came from and who controlled the flow of money.[120] This was answered in a response from the State Department who confirmed to the new US ambassador to Lebanon, Armin Meyer that the CIA had previously employed a labor operative in Lebanon and had developed a covert fund which was used to make payouts to Lebanese labor leaders, but had now abandoned its labor program and was no longer dispensing funds.[121] Both the labor attaché and the CIA Station Chief, Ed Applewhite, believed, however, that the British were still actively involved in covert operations in the Lebanese labor movement, and Applewhite was encouraged to request specific details about their operation from British intelligence.[122] Even if CIA money to Lebanese labor leaders had dried up by the 1960s, the embassy

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[118] U.S. Embassy Beirut to Dept. of State, "Right-Left Fight in Trade Union Movement Intensified" April 13, 1962, 883a.062, Box 2795A, Central Decimal Files 1960-63, General Records of the Department of State (Record Group 59), National Archives at College Park, MD, p4.

[119] Snell to Nesbitt, "Skaff Request for Financial Assistance" (enclosure to "Stepped-up Communist Activity in UUEW Unions," November 7, 1960), 883a.062, Box 2795A, Central Decimal Files 1960-63, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.

[120] Ibid., 2.

[121] Crawford to Meyer, "Comments on Beirut Despatch [sic] 295" December 6, 1960, 883a.062, Box 2795A, Central Decimal Files 1960-63, General Records of the Department of State (Record Group 59), National Archives at College Park, MD. The CIA was certainly not shy about dispensing large amounts of money to influence events in Lebanon, as the expose by Wilbur Crane Eveland, a former CIA operative in Lebanon, confirmed. Eveland had personally transported briefcases full of cash to then-President Sham'un to help him shape the outcome of parliamentary elections in 1957. It was the flagrant interference in these elections that helped set the stage for the conflict of 1958. See Eveland, *Ropes of Sand*, 249–253.

[122] Crawford to Meyer, "Comments on Beirut Despatch [sic] 295."

continued to do its part to support the conservative leadership, and Harold Snell was praised by the State Department for his work supporting the conservative labor leadership.[123]

These various sources of aid could be effective in thwarting particular challenges from the left, for example efforts to win seats on union governing bodies at election time could be stymied by rigging the vote or through a campaign of intimidation, but they were unable to stop the leftists altogether and ensure an unchallenged reign for the incumbent labor bureaucrats. At the same time, the effectiveness of this external aid, coupled with inherent weaknesses within the ranks of the labor left itself, placed limits on how far the latter could proceed in their efforts to remake the Lebanese movement. This was demonstrated aptly in the case of the campaign within the United Unions in the early 1960s. Despite the setbacks the leftists experienced in the 1960 campaign to unseat conservative leaders in UU member unions, the alliance of communists and Progressive Socialist Party (PSP) members was able to effect the departure of several more unions from the federation the following year. The event which triggered this departure was the decision by the UU president, Gabriel Khoury, and the rest of the leadership to pursue affiliation with the pro-Western International Confederation of Free Trade Unions (ICFTU) in late 1961. Following the decision to affiliate the communist-PSP faction was able to effect the departure from the UU of four key unions, the Railway Workers, Tobacco Monopoly Workers, Port of Beirut Employees and IPC Refinery Workers, whose combined membership was around 4,500 out of a UU total of around 11,000.[124] Although the communist-PSP group within these unions had not succeeded in fully defeating the conservative forces on their executive bodies, they had built sufficient strength among the rank-and-file that they were able to win a vote to disaffiliate from the United Unions, a move which constituted a significant blow to Gabriel Khoury's ruling bureaucratic clique. These four unions immediately united with the OETC Workers' Union which had disaffiliated previously, and the five unions together sought a license to create the Federation of Labor Unions of Lebanon, from the recently appointed Minister of Labor, Jean Aziz. The license application was rejected, as was an attempt by Minister of the Interior and leader of the PSP, Kamal Jumblatt, to have the Council of Ministers overturn Aziz's decision.[125]

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[123] Ibid. US assistance to Lebanese trade unions also included a program of 'leadership training', in which senior, pro-American trade union leaders were invited to the United States for six-week training courses. See U.S. Embassy Beirut to Dept. of State, "CERP Committee on Foreign Worker Organizations" August 16, 1960, File 560, Box 53, Classified General Records 1936-1961, U.S. Embassy, Beirut, Lebanon, Records of the Foreign Service Posts of the Dept. of State (Record Group 84), National Archives at College Park, MD.

[124] U.S. Embassy Beirut to Dept. of State, "Annual Labor Report" May 21, 1962, 883a.06, Box 2795A, Central Decimal Files 1960-63, General Records of the Department of State (Record Group 59), National Archives at College Park, MD, p6; U.S. Embassy Beirut to Dept. of State, "Right-Left Fight in Trade Union Movement Intensified."

[125] U.S. Embassy Beirut to Dept. of State, "Right-Left Fight in Trade Union Movement Intensified," 3.

Following this setback, which left the new grouping without a legal basis on which to operate, the communist-PSP coalition sought to use their base of support in another federation, the Federation of Independent Trade Unions (FITU) to win an outright victory on the FITU governing body and then effect a merger of FITU with both the FLUL and the older communist-backed Federation of Labor Unions (FLU). This would have created a powerful leftwing force within the Lebanese labor movement which would have included some of the most strategically placed unions in the public utilities, commercial and transportation fields. The FITU had been beset with problems following the death of its president, Mohammad Sharqawi and the expulsion of former president 'Abd al-Majid Mehio, and a left-right fight had divided the federation leadership. In April 1962, after the interim president Naim Kreidi had succeeded, with the aid of the Deuxieme Bureau and the Ministry of Labor in delaying federation elections three times, the rightwing forces could no longer delay a vote without risking a complete loss of legitimacy and elections were scheduled for April 17th.[126] On the day of the election the leader of the rightwing faction on the newly selected Council of Delegates, Nabil Ghosn, led his allies out of the meeting once it became clear that they could not muster sufficient votes to win the top seats on the board. The remaining delegates voted the leftwing bloc into the leadership, but Ghosn prevailed upon Labor Minister Jean Aziz to void the elections, while both the ministry and military intelligence promised him help behind the scenes to ensure victory in the rerun.[127] This took place in July, and in the intervening period Kreidi and Ghosn were working behind the scenes to discredit the leader of the leftwing bloc in the federation Labib Sahlani, who was head of the Jewelry Workers' Union. This was achieved after they allegedly unearthed evidence, possibly with the assistance of the Deuxieme Bureau, that Sahlani and his two fellow delegates were now self-employed and thus, under Lebanese labor law, ineligible for membership in the union. Labor Minister Aziz dutifully authorized the disbarment of Sahlani and his fellow candidates in the leftwing bloc from the election, allowing the rightwing forces to sweep the subsequent federation elections.[128]

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[126] U.S. Embassy Beirut to Dept. of State, "Communist-PSP Coalition Deeply Involved in FITU Election" April 10, 1962, 883a.062, Box 2795A, Central Decimal Files 1960-63, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.Under Lebanese law the elections were a two-step process; first a Council of Delegates was agreed, composed of representatives from the federation's member unions, following which the Council would elect a 12-person Executive Board from its own members.

[127] U.S. Embassy Beirut to Dept. of State, "Labor Minister Voids FITU Election" April 19, 1962, 883a.06, Box 2795A, Central Decimal Files 1960-63, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.

[128] U.S. Embassy Beirut to Dept. of State, "Democratic Forces Victorious in FITU Election" July 16, 1962, 883a.062, Box 2795A, Central Decimal Files 1960-63, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.It is worth noting that the conservative trade union leadership was somewhat selective in when, and in what circumstances, it pressed for the proper application of Lebanese labor laws. The former FITU President, Mohammad Sharqawi, had, for example, been a labor contractor at the Port of Beirut and was therefore classed as an employer, a fact which did not stop him from holding the top office in a major labor federation.

This series of events highlighted a number of features of the landscape of Lebanese labor at this time. Firstly, it underscored the enduring power and appeal of leftwing forces who, over the decade and a half since independence, had experienced repeated attacks and determined campaigns, by the state and by the diplomatic and intelligence personnel of the United States and other Western powers, against their bases of support in the labor movement. These campaigns had certainly weakened the labor left at various times, but they had not been able to extinguish them completely. An important part of the reason for this failure was that the factors which induced support for the labor left, particularly the gross inequality in Lebanese society, the lack of effective welfare mechanisms to help the majority of the population who were mired in chronic poverty, and, in the labor movement as well as Lebanese political institutions more broadly, the corruption and venality of many incumbent leaders. The labor left was able to effectively tap into popular frustrations with this state of affairs as well as with popular antipathy towards the policies and practices of the US and its allies in the region, which the labor left stood opposed to.

However, at the same time, these events also underscored the very real constraints placed on the labor left's freedom of action and the political limits beyond which they were ultimately unable to travel. This was in part a result of the successful operations of the state and its Western allies in stymying the particular strategies of the labor left to win greater influence in the labor movement, but it was also a consequence of the broader success the Lebanese state had achieved in tying the labor movement as a whole to itself. In the absence of comprehensive labor legislation, which the ruling elite had consistently avoided enacting, with the partial exception of the 1946 Labor Code, the legitimacy of organized labor's activities, including its own internal democratic processes and its negotiations with employers, could only be determined by the state. The coercive apparatus of the state was sufficient to prevent the labor left from building a strong enough base in the labor movement that would in turn allow them to pull organized labor, or at least important sections of it, out of the state's orbit and thus permit the emergence of alternative, more independent sources of legitimacy.

Organized Labor & the Years of Crisis

The defining trends in organized labor during the last decade before the civil war of 1975 began were a move towards a greater degree of unity within the Lebanese labor movement on the one hand, and increasing pressures for an accelerated process of internal reform, as well as greater militancy in the face of the spiraling cost of living and the deepening economic and social crisis that began to afflict the country towards the end of the 1960s. The efforts of the labor left, the sometimes fractious coalition of communists, Arab nationalists and Progressive Socialists, to win greater prominence within the labor movement continued and were met with more success than at any point since the mid-1940s, though they ultimately remained lacking in sufficient strength to eclipse the conservative trade union leadership. Within the latter however, important changes took place, and long standing leaders such as Gabriel Khoury, president of the United Unions,

and Hussein Ali Hussein, secretary-general of the Labor League, were increasingly sidelined by a new generation of labor leaders, in particular George Sacre, president of the Federation of Petroleum Workers (FPW) and Antoine Beshara, president of the Port Employees Union, who were dubbed the 'Young Turks' by the US embassy's labor section, and who espoused a moderate program of trade union reform in order to combat the perennial leftist threat more effectively, as well as to help make organized labor a more efficacious player on the national stage. Although significant changes did take place, and a new configuration of national labor bodies emerged, endemic problems remained, and organized labor was still divided between the better-organized and better-funded white-collar unions, in which Christian workers tended to be overrepresented, and the weaker, poorer, and predominantly Muslim blue-collar unions.

Efforts to impose some degree of unity on the fractured landscape of organized labor in Lebanon dated back to just before the outbreak of the first civil war in spring 1958 when negotiations between the Labor League, the United Unions and the Federation of Unions in North Lebanon (FUNL) resulted in a tentative agreement to form the General Confederation of Labor.[129] The other major federation at that time, the Federation of Independent Trade Unions (FITU - formerly the Allied Independent Unions) was excluded from membership in the confederation because of the long-standing feud between its then leader, 'Abd al-Majid Mehio and the leaders of the other federations, particularly the Labor League, from which he had split in the early 1950s. The General Confederation was rendered largely moribund for the first years of its nominal existence by infighting between its leaders, especially Khoury and Hussein who continued to raid one another's federations.[130] This changed in 1962 when, as a result of the potent challenge presented by the communist-PSP coalition described in the previous section, the conservative trade union leadership was convinced of the need to build a stronger, more unified base from which to assert their control over organized labor as a whole. In March of 1962, the aforementioned three federations agreed to formally create the Confederation of Lebanese Labor (CLL) with Gabriel Khoury as its president.[131] With the demise of Mehio, the interpersonal feuding which had prevented the admission of FITU into the CLL was largely overcome and the former was finally admitted into the latter in 1964, giving the conservative trade union forces a relatively unified base from which to combat their leftwing opponents.[132]

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129 U.S. Embassy Beirut to Dept. of State, "Annual Labor Report - 1958", 5.
130 U.S. Embassy Beirut to Dept. of State, "Annual Labor Report [1961]," 7.
131 U.S. Embassy Beirut to Dept. of State, "Annual Labor Report [1962]" March 15, 1963, LAB 2 LEB, Box 3586, Subject-Numeric Files 1963, General Records of the Department of State (Record Group 59), National Archives at College Park, MD, p7.
132 U.S. Embassy Beirut to Dept. of State, "Ghosn Resignation Accepted; FITU Applies for CLL Affiliation" August 31, 1964, LAB 3-2 LEB, Box 1309, Subject-Numeric Files 1964-66, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.

In the meantime, the labor left had suffered a series of setbacks in the years following the failure of their strategy of winning victory in the FITU elections of 1962 and then effecting a merger of leftwing labor forces with FITU. The fallback option of obtaining a license for the grouping of unions that had split with the United Unions as the Federation of Labor Unions of Lebanon (FLUL) did not meet with success and they were instead forced to seek a license to form a political party, the Labor Liberation Front (LLF) through which the FLUL unions could operate. In this they were more successful, and the LLF was granted a license in January 1963 by Minister of the Interior Kamal Jumblatt, the head of the PSP, which was a major constituent of the LLF.[133] The conservative leaders of the CLL reacted with consternation to the LLF's formation and the announcement that it had received a government license to operate, fearing that it could become a serious threat to their positions, and forbade their member unions from having any association with it.[134] At that point in time however their fears appeared relatively groundless, as the leftwing grouping had suffered some serious setbacks over the year since the failure of the FITU strategy, and was now temporarily weakened. Two of the five unions comprising the FLUL, the Port Employees Union and the OETC workers union had voted to leave the new federation after leftwing officers were ousted from their governing bodies, including FLUL/LLF leader Assad Akl who lost his position of leadership within the OETC union.[135] Despite its weakened state, this leftwing grouping proceeded with its plans to organize and in June 1963 elected officers to the LLF, which resulted in Akl emerging as president and a number of prominent communists, including veteran communist trade unionist Elias Habre, on the LLF executive board. Particularly vexing to the conservative trade union leadership was the inclusion of several non-communist union leaders from CLL member unions in the LLF's leadership body.[136]

Following these events the labor left appears to have been in a state of confusion and relative disintegration for the next three years, as a result of the setbacks of the early 1960s, but that began to change in the summer of 1966 when Akl was able to win reelection as president of the Beirut Electricity Workers' Union.[137] During the period between his defeat in 1963 and his reelection in 1966, his leftwing allies within the union had managed to prevent its re-affiliation with the United Unions, and Akl's election now

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[133] U.S. Embassy Beirut to Dept. of State, "Labor: Jumblatt Licenses Labor Party" February 1, 1963, LAB 1 LEB, Box 3586, Subject-Numeric Files 1963, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.
[134] U.S. Embassy Beirut to Dept. of State, "Boycott of Labor Party Sought by Confederation" August 14, 1963, LAB 3-2 LEB, Box 3586, Subject-Numeric Files 1963, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.
[135] Ibid., 2.
[136] Ibid., 3.
[137] U.S. Embassy Beirut to Dept. of State, "Akl Elected President Electricity Union" August 5, 1966, LAB 3-2 LEB, Box 1309, Subject-Numeric Files 1964-66, General Records of the Department of State (Record Group 59), National Archives at College Park, MD. The former Beirut Electricity and Public Transport Office (OETC) Workers Union had been broken into two separate unions in 1963 when the OETC itself was partitioned into separate electricity and public transport offices.

ensured that this would not take place. Instead, later that same year, a new group of labor federations emerged, following the surprise decision of outgoing Minister of Labor Jamil Lahoud to grant licenses to three new federations, the Federation of Unions in South Lebanon (FUSL) which, according to the US embassy's labor section, was dominated by Arab nationalist activists, the Federation of Autonomous Office Unions (FAOU) and, most controversially, the communist unions newly renamed as the National Federation of Labor Unions (NFLU).[138] Lahoud's successor ratified his decision, and, in addition, granted a fourth license, following a split within the nascent FAOU. Unwilling to countenance working with leftwing forces in the FAOU, especially Assad Akl, Antoine Beshara, president of the Port Employees Union, led five unions out of the fledgling federation to form a rightwing rival grouping. This somewhat confusing situation brought the total number of labor federations in Lebanon to nine, and for the first time allowed the openly communist unions to operate legally, a break with previous government policy, as the repeated applications of the communist unions for a license to federate had been rejected by all of Lahoud's predecessors.

This appeared to be a remarkable shift in government policy, at least with respect to extending official legitimacy to openly leftwing labor forces. The new federation licenses now gave the labor left a strong base to operate from and allowed them to proceed more effectively with plans to regroup leftwing labor forces in such a way as to make them a more formidable presence in the labor movement. Alongside these developments was the gradual emergence of a 'reformist' bloc with in the ranks of the conservative trade union leadership, comprised of generally younger, more energetic union leaders who recognized the need to make substantive changes in the way Lebanon's labor movement was structured and led, if a leftwing takeover was to be averted. The three key players in the reformist bloc were John Tweini, leader of the FAOU, George Sacre, FPW president and Antoine Beshara, leader of the Federation of the Autonomous Offices, Public & Private Unions (FAPU), the rightwing split from FAOU, and they enjoyed the support of the former Director-General of the Ministry of Labor, now head of the Social Security Fund, Dr Rida Wahid, who was himself part of an informal grouping of civil servants who favored reforms to the administrative structure of the state.[139] Following a meeting at Dr. Wahid's home in late October 1967, the three trade unionists agreed to work closely together on a more formal basis and to meet regularly to discuss strategy. Their main aims were to achieve a regrouping of Lebanese unions along industrial lines and under the umbrella of a single national confederation in which each member federation would be allocated seats

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[138] U.S. Embassy Beirut to Dept. of State, "Implications of Lebanon's New Labor Federations" February 23, 1967, LAB 3-2 LEB, Box 1263, Subject-Numeric Files 1967-69, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.

[139] U.S. Embassy Beirut to Dept. of State, "Formation of Labor Bloc to Promote Labor Unity" November 13, 1967, LAB 3-2 LEB, Box 1263, Subject-Numeric Files 1967-69, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.

according to their respective numerical strengths, rather than on an equal basis as was the case at present.[140] These reforms had a clear broader aim, which was to undermine the labor left (the "extremists and especially the communists" in Beshara's words) whose position was increasingly strengthened the longer the trade union movement as a whole remained poorly organized and led by corrupt and inept rightwing leaders.[141] Such reforms were, however, strongly opposed by many of the 'old guard' conservative leaders, especially Gabriel Khoury and Hussein Ali Hussein who faced the prospect of being sidelined, and potentially rendered irrelevant, if such changes were agreed to.[142]

The tide was turning against individuals like Khoury and Hussein however, and already by spring of 1967 there had been several meetings of a new labor body, the Supreme Council of Labor Federations which encompassed the presidents and secretaries-general of all nine labor federations, including the openly communist NFLU. This move was encouraged by two senior civil servants at the Ministry of Labor, Director-General Abbas Ferhat and Director of the Labor Section Fuad Nasr Abi Raad, who sought advice from the US embassy about how best to proceed and whether or not to allow the NFLU to join the new grouping.[143] In the end, it was agreed that there was no legal and legitimate way to exclude the NFLU, since it was now a licensed federation, and in any case it seems to have been in line with the new thinking of at least some government officials and the reformist labor leaders that it would be easier to control the labor left by granting them the right to operate openly within a single state-supported labor confederation. This viewpoint seems ultimately to have predominated, and on April 22nd 1970, all nine labor federations, including the NFLU, were admitted to the CLL, and for the first time a single, officially licensed body represented organized labor in Lebanon, with the CLL comprising over 100 member unions with around 46,000 estimated members.[144]

The path to this novel degree of unity between conservatives and the labor left was not an easy one and discord within the ranks of the conservative trade unionists, as well as the

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140 Ibid., 2.

141 In a lunch meeting with Elias Habre, the communist leader of the NFLU, in January 1969, Beshara told Habre bluntly that "the communists in and out of the labor movement were the Young Turks' [i.e. the reform bloc's] primary target." See U.S. Embassy Beirut to Dept. of State, "Communist Activities Within the Labor Movement" February 3, 1969, LAB 3-2 LEB, Box 1263, Subject-Numeric Files 1967-69, General Records of the Department of State (Record Group 59), National Archives at College Park, MD, p3.

142 Reorganization along industrial lines would likely have spelled the end of Khoury's federation, the United Unions, as it was comprised of a diverse array of member unions from many sectors of the economy. For Hussein, derided by the reformers as a particularly corrupt and self-serving union leader, as well as an agent of military intelligence, a change to proportional representation as a means to determine representation in the governing structures of the CLL would have reduced his standing considerably and made it much harder for him to retain the Vice Presidency of the Confederation.

143 U.S. Embassy Beirut to Dept. of State, "Labor Unity Out of Multiplicity?" May 16, 1967, LAB 3-2 LEB, Box 1263, Subject-Numeric Files 1967-69, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.

144 U.S. Embassy Beirut to Dept. of State, "Trade Union Unity" June 11, 1970, LAB 3-2 LEB, Box 1411, Subject-Numeric Files 1970-73, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.

abiding resistance of some to the inclusion of the communists and their PSP and Arab nationalists allies, placed considerable obstacles in the path of ultimate agreement. On the one hand, the old-guard conservatives, particularly figures like Gabriel Khoury, remained hostile to the notion of restructuring the labor movement along industrial lines for fear such a move would logically result in the dismemberment of his own federation and thus destroy his base in the labor movement. For this reason Khoury initially opposed the inclusion of some of the newer federations such as the Federation of Petroleum Workers (FPW) which were already organized along industrial lines, but he was prevailed upon by the reformist bloc to change his mind and accept that inclusion of all nine federations in the CLL was the best way forward. On the other hand, strong opposition to the inclusion of the NFLU remained, spearheaded by Darwish Rai, the leader of the rightwing rival union to the communist-led hotel workers' union which Elias Habre, president of the NFLU, headed. Rai, who had a long and bitter relationship with Habre and had been actively assisted by various domestic and external sources in his campaign to build his own hotel workers' union at the expense of the long-established leftwing union that Habre led, feared that his union would now be in danger.[145] The combined pressure of the reform bloc overruled Rai's concerns however and the reformers were able to persuade Khoury and others that the NFLU was numerically weak and would be easy to contain and control. Thus, the various stumbling blocs to a unity agreement were overcome, although the vexing question of voting rights within the new body, and specifically the question of whether some form of proportional representation would be implemented, was as yet unresolved.

The newly enlarged CLL became the center of the official labor movement in Lebanon and, in theory, offered a strong base for the union movement to grow and become a more effective actor against employers and the government. The reformist elements seemed poised to bring about far-reaching structural changes in union organization that would turn the ad-hoc amalgamations that many of the federations comprised into genuinely industrial unions, thus giving them much greater power to represent and empower workers in their respective sectors. However the optimism of the reformers proved to be premature as, in the years following the unity deal of 1970, they steadily lost ground to the old guard, led as ever by Gabriel Khoury. Initially events moved in a somewhat promising direction for the reformers as they conspired with the old guard in the first elections of the unified CLL in September 1970 to ensure a clean sweep of the seats on the executive board for themselves and the complete exclusion of radical leftwing forces.[146] These elections left Khoury as President, with key reformers Antoine Beshara as Secretary-General, George Sacre as Treasurer and John Tweini as President of the Council of Delegates, and effectively divided power between the reform bloc and the more conservative leaders. The reformers

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145 Ibid., 2.

146 U.S. Embassy Beirut to Dept. of State, "Struggle for Power Within Confederation of Lebanese Labor" September 24, 1970, LAB 3-2 LEB, Box 1411, Subject-Numeric Files 1970-73, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.

success in winning a strong base within the CLL leadership was short-lived, however, and their position rapidly began to erode.

The first major blow was the loss of Antoine Beshara, who was forced to resign as president of his union, the Port Employees Union, in July 1971 after it became clear that he would not win re-election.[147] This surprise turn of events was partly the result of management efforts to oust Beshara, whom they viewed as a troublemaker who had become too powerful, and replace him with someone amenable to the management viewpoint. It may also have been the case that Gabriel Khoury also intervened in the elections to help remove a troublesome opponent and one of the ringleaders of the reform bloc.[148] Whatever the case, the reformers were significantly weakened by Beshara's loss and his downfall set the stage for efforts by Khoury to cement his position on the CLL executive board at the expense of the reformers. In elections initially slated for December 1971, but postponed until March 1972 after Khoury suffered a mild heart attack, Khoury went head-to-head with the reform leader George Sacre, who was backed by the leftwing forces including the communists, for the position of president, and, thanks to a frenzied round of politicking and vote-buying, was able to sweep the elections and oust all of the key reformers from the top leadership positions.[149] This left the CLL firmly under the control of the most conservative elements in the trade union leadership and placed an indefinite hold on any plans to institute substantive changes to the structure of Lebanese labor.

These events were taking place against a backdrop of an increasingly intractable crisis in Lebanon as domestic and regional events precipitated the beginnings of social revolution and pushed the state to the brink of collapse. The CLL and the bulk of organized labor proved itself to be a dutiful ally of the embattled elite by refraining from involving itself in these momentous events. In 1973, as the Lebanese Army once again battled the forces of the Palestinian Resistance Movement, which was now headquartered in Beirut, in clashes that threatened to bring about civil war, the CLL limited its response to a letter of support for the government that was designed to offend no one, nor offer any constructive solutions to the impasse.[150] The labor left meanwhile continued to agitate within the CLL for a more militant line in the face of an increasingly severe social and economic crisis, as unemployment rose and inflation spiraled, and the government tried to contain Palestinian and leftist radicalism. At times the labor left was able to pressure the CLL leadership into

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[147] U.S. Embassy Beirut to Dept. of State, "Antoine Beshara Steps Down as Union Leader" July 29, 1971, LAB 3-2 LEB, Box 1411, Subject-Numeric Files 1970-73, General Records of the Department of State (Record Group 59), National Archives at College Park, MD.
[148] Ibid., 3.
[149] U.S. Embassy Beirut to Dept. of State, "Annual Labor Report, 1971-2" August 29, 1972, LAB 2 LEB, Box 1411, Subject-Numeric Files 1970-73, General Records of the Department of State (Record Group 59), National Archives at College Park, MD, p9-12.
[150] U.S. Embassy Beirut to Dept. of State, "Annual Labor Report, 1972-3" July 20, 1973, LAB 2 LEB, Box 1411, Subject-Numeric Files 1970-73, General Records of the Department of State (Record Group 59), National Archives at College Park, MD, p11.USNA "Annual Labor Report 1972-3" p11

taking substantive action, as in the case of the Ghandour Chocolate Factory Strike in November 1972.

The Ghandour factory, which employed 1,200 workers, was the largest non-unionized workplace in Lebanon at that time and as such was a target for leftwing activists in the Communist Party and the Organization for Communist Action (OCA), a split from the CP, who were seeking to support the Ghandour workers. The workers went out on strike to protest low pay, gender discrimination and to demand the right to organize, as well as recognition of the shop floor workers' committee, and were met with force as the government deployed gendarmes to quell the strike; in the ensuing clashes two workers were shot dead and fourteen were wounded.[151] A wave of popular indignation followed these bloody events, and tens of thousands participated in a protest of government repression of legitimate workers' grievances. Initially however the CLL did nothing, until the leftwing radicals, in the context of growing public anger at the killings, were able to push the leadership to call a one-day general strike in solidarity with the Ghandour workers. The government and the employer refused to yield however and the latter staged a lockout while the former rejected calls for an investigation into the gendarmes' actions. The CLL attempted to mediate with the government but the result was a mediocre agreement which did little to satisfy the demands of the workers or the leftists, and after the lockout was rescinded the Ghandour company refused to rehire one hundred of the key strike organizers.[152] Thus, in one of the most important strikes of the period, and potentially a key organizing moment for the Lebanese labor movement, the CLL revealed itself to be unwilling and unable to defend the interests of Lebanese workers. For leftwing labor forces, the outcome of the Ghandour and other major strikes in this period highlighted how straightjacketed they were becoming by operating inside the official labor establishment, and this led in response to a shift towards building grass-roots workers' committees that could agitate in key workplaces, especially in the rapidly growing industrial zones of Beirut which the official union movement had seriously neglected to organize, and stage wildcat strikes and other unofficial actions, without having to operate through the conservative trade union bureaucracy.[153]

The victory of Khoury and the conservative forces in the official trade union movement over both the moderate reform bloc and the more radical labor left helped to ensure the CLL, and organized labor in Lebanon generally, would remain a marginal force in Lebanese politics and would be of little succor to the tens of thousands of workers mired in poverty by an economic structure that continued to enrich the elite at their expense. By the 1970s it

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[151] U.S. Embassy Beirut to Dept. of State, telegram (November 13, 1972), LAB 6-1 LEB, Box 1411, Subject-Numeric Files 1970-73, General Records of the Department of State (Record Group 59), National Archives at College Park, MD; Traboulsi, *A History of Modern Lebanon*, 167–8.
[152] U.S. Embassy Beirut to Dept. of State, "Annual Labor Report, 1972-3," 12; Traboulsi, *A History of Modern Lebanon*, 168.
[153] Traboulsi, *A History of Modern Lebanon*, 168–9.

was increasingly clear how the CLL's growth had failed to keep pace with the broader trends in the Lebanese economy and although trade union membership was at an all-time high, at an estimated level of around 50,000 by 1973, population growth and the growing numbers of Syrians and Palestinians who comprised an increasingly large proportion of the labor force in Lebanon meant that union density was almost certainly shrinking rapidly.[154] But even more problematic was the fact that the union movement's strength lay in white-collar employees in certain sectors of the economy, such as utilities and commerce, which although important were not the new growth areas of the economy. The low paid, blue-collar workers who flocked to Beirut to look for jobs in the growing industrial zones, and those who worked in low paying service sector jobs, were grossly underrepresented in the official labor movement, and especially the Syrians and Palestinians, who were the most exploited and who may have constituted up to a third of the actual labor force in Lebanon. By failing to organize these workers, and by yielding to the interests of their government and elite patrons, the conservative trade unionists of Lebanon ensured that some of the key labor struggles of the last years before the outbreak of civil war in 1975 would happen outside official labor circles, and that the movements that emerged to finally challenge the postcolonial order in Lebanon would not include organized labor as a constituent, in spite of the potential the union movement offered to be a major actor on the Lebanese stage.

Conclusion

This chapter has examined two political forces in modern Lebanese history that, in different ways and at different moments had the power to significantly challenge the postcolonial political economy of Lebanon as it emerged after the end of the Second World War. The first of these forces was the Lebanese Communist Party, which in the middle of the 1940s was one of the most formidable political organizations in the country. It was well-organized, with a relatively broad popular support base, and presented a potentially powerful reformist challenge to the Lebanese ruling class and their desire to institute a postcolonial economic order that was based on unregulated trading and financial transactions between the west and the rest of the Arab world, and which required a limited, non-interventionist state to function effectively. The Communist Party reached the zenith of its power in 1947 but a combination of the inherent organizational and political weaknesses of the party itself, coupled with the effective countermeasures of the state and the ruling class relegated the communists to the margins and they were never again able to offer the same kind of challenge to the Lebanese system, at least until their participation in the Lebanese National Movement (LNM) in the early 1970s. The defeat of the communists in the late 1940s was a key moment which helped set the subsequent tenor of Lebanese

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[154] U.S. Embassy Beirut to Dept. of State, "Annual Labor Report, 1972-3"; Chalcraft, *The Invisible Cage*, chap. 2 & 3.

politics, and established the practice of excluding evenly moderately reformist forces, which was what, in reality, the communists really represented at that time, from the corridors of power. The parliamentary system was configured in such a way that made it very difficult for those who did not enjoy the official patronage of the key families of the ruling class to gain a seat in parliament, and the widespread and tolerated practices of vote-buying and vote-rigging ensured that parliament was an institution of the oligarchy alone. It was the fight with the communists in the mid-1940s that was instrumental in setting the contours of the Lebanese parliamentary system in this manner.

The other potentially powerful force that this chapter examined was the Lebanese trade union movement. Initially dominated by leftwing and communist labor activists the ruling class began, as part of the general campaign against the Communist Party, to sponsor rival labor institutions in the late 1940s, instituting a practice of keeping the union movement divided, weakened, and largely dependent on state patronage, a state of affairs which existed largely unchallenged throughout the next decade. Two important trends emerged in the years after the civil war of 1958; the resurgence of a challenge by the leftwing forces within the labor movement, particular communists, Progressive Socialists and radical Arab nationalists, to win a greater share of power within the trade union leadership; and secondly the emergence of a reformist bloc within the conservative labor bureaucracy that favored the restructuring and limited democratization of the union movement to better enable it to meet the strong challenges from the left. As this chapter has tried to demonstrate, both of these trends were defeated by the conservative leadership, led by figures such as Gabriel Khoury and Hussein Ali Hussein, and on the eve of the second civil war in 1975, the official trade union movement remained a largely quiescent and ineffectual body, unrepresentative of the majority of low paid, exploited workers in the country.

What both of these cases help to demonstrate is how the Lebanese ruling elite was able to neutralize potential challenges to the status quo in the postcolonial period, often by exploiting the sometimes significant weaknesses of their opponents. In the process, however, they pushed political protest in directions that were harder to control. Once the official labor movement had proven its chronic inability to challenge the miserable conditions of the Lebanese working class, labor protests shifted to unofficial grass-roots workers groups, some sponsored by leftist groups like the Organization for Communist Action (OCA). Such sites of political action were much harder to contain and combat, especially in an era where the coercive capacities of the state were increasingly circumscribed as civil disorder increased. In the case of the communists, exclusion from the formal channels of state power and the configuration of the parliamentary system to make their participation in the electoral process extremely challenging, led them to reconsider their attitudes towards working with other forces on the left as a way to build power more effectively, and helped set the stage for their participation in the movement that was able to pose a more potent challenge to the ruling class, the Lebanese National Movement. Perhaps the defining political trend of the postcolonial period was the uncompromising upholding of elite interests by the apparatuses of the state, and the increasing unwillingness, or inability, on the part of ruling elites to reconfigure the political system to accommodate dissent and challenges to the status quo, thus driving such tendencies, which

only became more pronounced as the Lebanese economic model created ever greater levels of misery and inequality, outside the official institutions of politics. It is this that would ultimately prove fatal to the postcolonial order as an increasingly inexorable, and violent, challenge to the ruling class proved unstoppable by 1975.

Conclusion

This dissertation has attempted to reframe the history of postcolonial Lebanon as it unfolded between the end of the Second World War and the outbreak of the civil war of 1975, in order to avoid the pitfalls of historiographical approaches which place undue emphasis on sectarian narratives, and which privilege a form of sociocultural analysis which tends to explain Lebanese history as the product of successive periods of conflict and consensus between Lebanon's various sectarian formations. In place of such an approach, this dissertation has argued that the most effective way to understand modern Lebanese history is through a political economy framework, one which foregrounds a very different narrative from the traditional sectarian story. In essence, this alternative narrative focuses on the successful efforts of Lebanon's ruling elite to establish, in the years after independence, a specific set of economic and political policies, institutions and practices that would allow them to consolidate and enhance their power and wealth. These policies, which effectively constituted a form of laissez-faire economic liberalism, were sharply at odds with the kinds of policies being followed in most of the rest of the postcolonial world in the years after World War Two, and emphasized deregulation, privatization and a minimal role for the state in the economy.

As Chapter One demonstrated, the dominant faction in Lebanon's ruling elite had obtained its wealth through trade and financial services activities, and it was these same economic sectors which were privileged in the postcolonial political economy, as the independent Lebanese republic was configured as a regional trading and services hub, whose fortunes were increasingly appended to the economies of other Arab states, especially the oil-rich kingdoms of the Arabian Gulf. The social, economic and political consequences of such a configuration were stark. As the necessary policies and conventions were put in place to realize this 'appendage economy', the Port of Beirut began to handle increasingly huge volumes of goods, imported from Western manufacturing centers and then re-exported to other Middle Eastern countries, while other Lebanese firms provided the financial and business services that allowed these trade flows to move smoothly, securely and profitably across borders with increasing ease. At the same time, Lebanese banks, heavily involved in financing trade activity, were also attracting great volumes of foreign capital, as Beirut became a banking haven for the Middle East region, thanks to a consciously lax regulatory environment and strict banking secrecy laws. This money, which included 'flight capital', petrodollars and other funds seeking anonymity and safety, grew much faster than the overall economy, swelling to nearly 180% of net national product (NNP) by the end of the period of study, and was used, in part, to finance the expansion of trade activities, as well as Beirut's long construction boom, which transformed the face of the city, quadrupling both the population and size of the built environment in just two decades. Alongside trade, business services and construction, tourism became increasingly important to the national economy by the late-1960s, as Lebanon presented itself as the premier regional destination for wealthy Arabs seeking a summer refuge, aided by a boom in luxury hotel construction and the opening of the opulent Casino du Liban in 1959. Beyond the licit economy, Lebanon played a central role in the international drug trade, becoming a major producer and exporter of hashish, as well as a key site for the processing

of opium into heroin, and the profits generated by narcotics may have provided up to a third of Lebanon's national income, while Beirut's banks provided a useful and reliable site for laundering drug profits.

These were the main contours of the postcolonial economy of Lebanon, one which had a strong external orientation, and which was heavily dependent on the economic health of the wider Middle East region, and the global economy more broadly. The policies and practices that created and sustained these economic arrangements, and privileged the kinds of service activities described above, also sustained deep levels of inequality, and a socioeconomic environment in which a tiny minority enjoyed great wealth and opulent lifestyles, whilst the majority of the population languished in poverty, trapped in communities which lacked decent housing, adequate infrastructure and access to quality public services. As Chapter Two argued, the consequences for national development of the laissez-faire economic model were profound, and the state's performance in ameliorating the colonial legacy of inadequate, over-utilized public infrastructure was lackluster at best. As that chapter further elucidated, those schemes, such as the Litani River hydroelectric project that were undertaken were subjected to a market logic, which drastically curtailed their potential efficacy.

At the same time, existing in situations even more dire than those of the Lebanese poor, was a growing underclass comprised primarily of Palestinian refugees and Syrian migrant workers who lived in highly precarious and vulnerable circumstances, barred from owning property, excluded from basic public services and susceptible to gross exploitation. This underclass, which may have formed up to a third or more of the total laboring population, provided the bulk of the labor force in the most physically demanding, dangerous and demeaning economic sectors, often earning far less than their Lebanese counterparts and lacking even the minimal protections offered by Lebanese labor law. This was the reality of postcolonial Lebanon for most of its inhabitants; the kinds of economic activities favored by the dominant faction of the ruling elite, required a relatively limited amount of labor, little of it skilled or well-paid, and the chronic decline of agriculture, which had historically provided most employment opportunities, left much of the laboring class trapped in vicious competition for employment, driving meager wage levels down still further. Thus, while vast profits accrued to the rich, endemic levels of under- and unemployment left most of the population struggling to find adequate means of subsistence, and pushed many of those with the means to do so to seek opportunities overseas.

The existence of such high levels of misery and inequality created the conditions for a highly unstable polity, as did the overall structure of the economy which, as a result of its strong external orientation, was extremely vulnerable to sudden changes in the regional and global economy. As Chapter Three demonstrated, such vulnerabilities, inherent in the Lebanese model, were starkly illustrated during the financial crisis of 1966 which pushed the Lebanese economy to the brink of collapse and forced the ruling elite to implement measures that could ameliorate the worst aspects of the laissez-faire system through reforms which proved ultimately unsuccessful in resolving deeper systemic problems.

Yet, although Lebanon was plagued by political turmoil of various kinds, including extended periods of civil strife, bombings, assassinations, presidential succession crises and a number of attempted coups, the underlying nature of the country's political economy remained largely unaffected, and despite a reputation for compromise and consensus, the Lebanese political system was in fact highly rigid and unresponsive to pressures for reform. As Chapter Four has argued the ruling elite maintained this system by means of a strategy of exclusion and marginalization of even the most moderate reformist forces, restricting the spaces of legitimate political discourse, for the most part, to those elements who fully endorsed the trajectory of economic and social policy. While other postcolonial states experimented with cooptation of radical and reformist elements, such as local communist parties, the Lebanese elite used a mixture of coercion and the erection of formidable barriers to political participation to prevent widespread popular support from translating into political power. Similarly, the state worked within organized labor, another potential base for reformist forces to challenge the status quo, to reinforce the bureaucratic leadership and prevent the radical elements from transforming a tentative foothold among the labor rank-and-file into meaningful political power. Such a strategy only proved successful in containing dissent for so long, however, and by the late-1960s, new popular political formations were emerging that the state's coercive apparatus could no longer contain, formations which were aided by the arrival of a large, well-armed and politically radical entity in the shape of the Palestinian Resistance Movement (PRM), and the combination of Lebanese and Palestinian reformist forces finally brought the status quo to an end.

In short, the main conclusion of this dissertation has been that the instability, inequality and rigidity of the political economy of the postcolonial Lebanese republic was the most important determinant of the history of this period, rather than the fractious interplay of sectarian interests. As a result of significant material limitations on the fieldwork that could be conducted for this dissertation, there are many aspects of this narrative that could not be fully elucidated here, and which are ripe for further study. As discussed in the introductory chapter, material limitations meant that documents from Western diplomatic archives played a prominent role in the evidentiary base for this dissertation, and whilst there can be many strengths to such sources, they also tend to reinforce elite perspectives and narratives, and a critical 'reading against the grain' cannot fully counterbalance this. The narrative offered here could thus be fruitfully built upon by the further exploration of subaltern perspectives that could enrich and enhance the arguments presented. Although some attempt was made, for example, in Chapter Four to integrate the history of the Lebanese labor movement into the narrative, there is much more that could be said about the fate of both organized and unorganized labor in postcolonial Lebanon, especially in the latter years of the period of study, when informal, rank-and-file-led organizing efforts appear to have emerged on a significant scale. Similarly the discussion of the Litani River project in Chapter Two could only gesture towards the experiences of those whose labor was necessary to realize the project, or those rural communities who were displaced by the construction of the major dams and reservoir, and subsequent research that prioritized the inclusion of such perspectives would likely produce valuable new insights. There was also comparatively little mention here of the experiences of Lebanon's rural population, or of

the broader changes that impacted the rural world over the course of the first decades after independence. Again, such changes, which were profound, traumatic and devastating for many rural inhabitants, and which spawned powerful political movements to fight for rural justice, could only be hinted at here, given the scope and limitations placed on this project, but valuable work remains to be done to further expose this vital aspect of the Lebanese postcolonial experience. Other important aspects of that experience were also, again for reasons of space and limited resources, not brought into conversation with the analytical framework presented in this project, including, for example, the so-called 'Shi'ite Revival' and the emergence of Musa Sadr's Movement of the Dispossessed in the later 1960s, an important popular movement which sought to challenge the historic marginalization of the Lebanese Shi'ite community, as well as a more detailed analysis of the rise of the Lebanese National Movement.

Finally, the framework presented in this dissertation may suggest ways to help rethink the history of the Lebanese civil war, and especially its early years, in order to provide a mode of analysis that escapes the simple dichotomy of 'Christians vs. Muslims' that plagues many of the existing accounts of that conflict. An account which complicates sectarian narratives, and privileges the political and social struggles of Lebanon's most marginalized and exploited peoples, could help us reimagine the Lebanese civil war in new and more fruitful ways. Scholars such as Fawaz Traboulsi, himself an active participant in some of those popular struggles which opened the period of civil war, have begun to sketch out what an alternative history might look like, but much remains to be done to enrich and enhance such a narrative.[1] Such a rethinking and refocusing of the historiography of civil war Lebanon could also help shed light on the ways in which the post-civil war Lebanese landscape both does, and does not, remain tied to the structural configurations set in place in the years immediately following independence from France. Part of the contention offered here has been that the decision to tie Lebanon's fate to that of external powers, in the West and in the Gulf region especially, that 'deal with the devil', has brought wealth and power to a privileged few, even as it continues to mire most inhabitants of the country, including the ever-swelling ranks of the refugee population, in a life of misery and lost opportunities. That is the real story of postcolonial Lebanon.

[1] Traboulsi, *A History of Modern Lebanon*, chap. 11–13.

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